# We've come a long way...

Annual report and accounts 2010

Petrofac

# ...but the journey is just beginning

In 2011, Petrofac turns 30. In three decades we have grown from a Texas-based producer of modular plant to a leading FTSE 100 company, with 13,900 people in 26 countries, providing integrated facilities solutions across the life cycle of oil & gas assets.

We are planning to make the coming decades even better. By continuing to learn, evolve and innovate and by staying focused on execution and delivery, we will go on developing our capabilities and service offering – for the benefit of all our stakeholders.

# Financial highlights

**Revenue**

**US$4,354m** 2009: US$3,655m

**+19%**

**Backlog**

**US$11,699m** 2009: US$8,071m

**+45%**

**Earnings per share (diluted)**

**162.46 cents per share**
2009: 103.19 cents per share

**+57%**

**EBITDA**

**US$759.4m** 2009: US$549.7m

**+38%**

**Net profit[3]**

**US$557.8m** 2009: US$353.6m

**+58%**

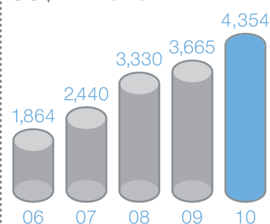
**Return on capital employed**

2009: 46.9%

**65.2%**

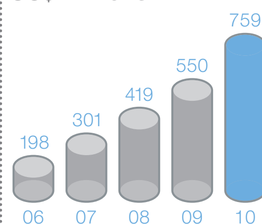
**Revenue**

US$ millions **4,354**



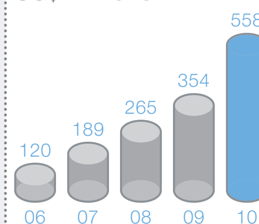

**EBITDA**

US$ millions **759**



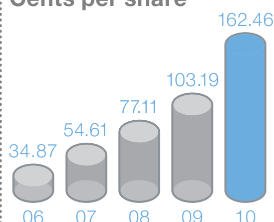

**Net profit**

US$ millions **558**



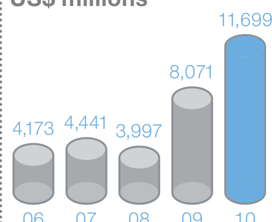

**EPS (diluted)**

Cents per share **162.46**




**Backlog**

US$ millions **11,699**




## Five year summary[1]

Information not subject to audit

| | 2010 | 2009 Restated | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Revenues[2] | **4,354.2** | 3,655.4 | 3,329.5 | 2,440.3 | 1,863.9 |
| EBITDA[2] | **759.4** | 549.7 | 419.0 | 301.3 | 198.3 |
| Profit for the year[2,3] | **557.8** | 353.6 | 265.0 | 188.7 | 120.3 |
| Diluted earnings per share (cents)[2] | **162.46** | 103.19 | 77.11 | 54.61 | 34.87 |
| Total assets | **3,601.3** | 3,600.6 | 2,269.8 | 1,748.0 | 1,401.8 |
| Total equity | **779.1** | 897.5 | 559.0 | 523.0 | 324.9 |
| Number of employees at year end[2] | **13,900** | 11,700 | 11,100 | 9,800 | 8,100 |
| Backlog | **11,699** | 8,071 | 3,997 | 4,441 | 4,173 |

1 In US$ millions unless otherwise stated. 2 On continuing operations. 3 Attributable to Petrofac Limited shareholders.

# Record-breaking results

Petrofac delivered another outstanding performance in 2010. The group achieved growth of 58% in net profit[1] (26% on a like-for-like basis[2]) and revenue increased by 19% to US$4.4 billion.

We won significant new contracts across many countries. During the year our order intake has resulted in achieving a record year-end backlog of US$11.7 billion, providing outstanding visibility of revenue for well beyond the coming year.

Petrofac's success – and our strategic goal of becoming the leading provider of facilities solutions to the oil & gas industry – is built on the following priorities:

- maintaining and improving our high safety and integrity standards wherever we work
- providing a range of services across the life cycle of the energy asset
- expanding our offering into new regions, prioritising areas with major hydrocarbon reserves and significant capital and operational expenditures
- providing fully integrated services for resource holders under flexible, tailored commercial models, which leverage our service capability and may include the provision of capital
- training and hiring local resources where we operate, to help develop national workforces
- attracting and retaining recognised specialists and key personnel
- identifying, acquiring and growing complementary businesses where they expand our skill set and support our strategic goals

Notes
1 Net profit for the year attributable to Petrofac Limited shareholders.
2 Like-for-like net profit growth excludes the gain of US$124.9 million on the EnQuest demerger and the trading net profit from Energy Developments' demerged assets of US$12.7 million for the year ended 31 December 2009 and US$2.1 million for the year ending 31 December 2010.

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# 2010 performance, at a glance

Growth was a key feature of our business in 2010. We grew our revenue and profits; extended our integrated service offering; moved into new countries, and expanded our workforce. We now have 13,900 employees and six strategically located operational centres: in Aberdeen, Abu Dhabi, Chennai, Mumbai, Sharjah and Woking, and a further 20 offices worldwide.

## Engineering & Construction

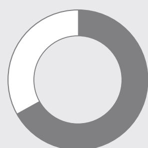
- Engineering & Construction
- Engineering & Construction Ventures

Locations

**5,400**

Employees

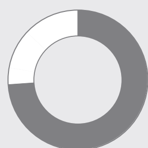
% of group



**+30%**

Revenue US$3,254m
2009: US$2,509m

% of group



**+41%**

Net profit US$373.0m
2009: US$265.1m

### Highlights

Order intake of US$6.0 billion, including:

- Petrofac's largest ever award, of US$3.4 billion, for the EPC phase of our contract with Turkmengas on the South Yoloten project in Turkmenistan
- a contract, for more than US$600 million, for gas sweetening facilities for Qatar Petroleum
- two awards for Kuwait Oil Company (KOC): a US$400 million contract for the installation of gas and oil pipelines and a US$430 million award for effluent water and sea water injection facilities
- a US$280 million award for the SEPAT offshore early production system for PETRONAS in Malaysia

### Key capabilities

- design and engineering
- procurement, including inspection and logistics of project materials and equipment
- pre-fabrication and on-site construction
- health, safety, security and environmental management in line with national and international regulations
- quality and integrity assurance and control
- project management
- commissioning and initial operations

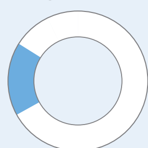
## Offshore Engineering & Operations

Locations

**4,400**

Employees

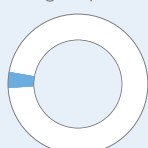
% of group



**+15%**

Revenue US$722m
2009: US$627m

% of group



**+34%**

Net profit US$17.2m
2009: US$12.8m

### Highlights

Order intake was US$1.6 billion, including:

- a US$250 million Duty Holder contract with the Government of Sharjah to provide facilities management services for the Sajaa gas plant
- a £500 million award with Total for the development of a gas processing plant on the Shetland Islands, in our first predominantly lump-sum contract in the UK, supported by Engineering & Construction
- a £40 million contract for the provision of engineering services to the UK Continental Shelf (UKCS) assets of Maersk Oil
- extensions of existing contracts, including a five-year agreement with BHP Billiton in the Irish Sea and a five-year extension to a contract with CNR International in the North Sea
- two capacity-broadening acquisitions: oilfield pressure control equipment service and repair company Scotvalve Services and metering systems business Stephen Gillespie Consultants

### Key capabilities

- on and offshore facilities management, including the Duty Holder service offering
- offshore engineering and construction
- project management
- maintenance management and support services
- mechanical services and metering
- supply of highly competent and experienced personnel

Petrofac delivers its services through seven business units that make up our four reporting segments. In their individual development, they are enabling us to become active across the entire value chain of the oil & gas industry, to the benefit of our customers, our shareholders and our people.

## Engineering, Training Services and Production Solutions

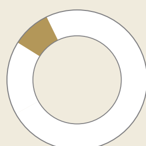
- Engineering Services
- Training Services
- Production Solutions

Locations

**3,400**

Employees

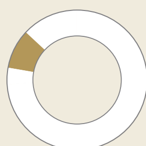
% of group



**+2%**

Revenue US$355m
2009: US$350m

% of group



**-15%**

Net profit US$27.6m
2009: US$32.4m

### Highlights

**Engineering Services:**

- utilisation rates rose across all three offices – Mumbai, Chennai and Woking
- the acquisition of renewable energy specialist TNEI marked our entry into the new energy sector

**Training Services:**

- refurbished and equipped a world-class Syrian training centre which we have donated to the Syrian Government
- strong growth from international markets, including our facilities in Russia and Azerbaijan

**Production Solutions:**

- awarded our first 'production enhancement' contract by Petrom of Romania, for the Ticleni oilfield
- entry into Nigeria, with a strategic alliance with, and investment in, Seven Energy

### Key capabilities

**Engineering Services:**

- field development planning
- conceptual engineering and front end engineering design
- engineering and procurement services

**Training Services:**

- competence-led training in safety and technical disciplines consultancy and tailored management solutions

**Production Solutions:**

- production enhancement with flexible remuneration options
- drilling and well engineering
- reservoir management and field (re)development planning
- development and delivery of pumping and separation technologies

## Energy Developments

Locations

**600**

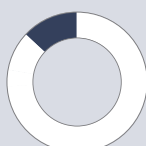
Employees

% of group

**-24%**

Revenue US$188m
2009: US$249m

% of group



**+238%**

Net profit US$156.4m
2009: US$46.2m

### Highlights

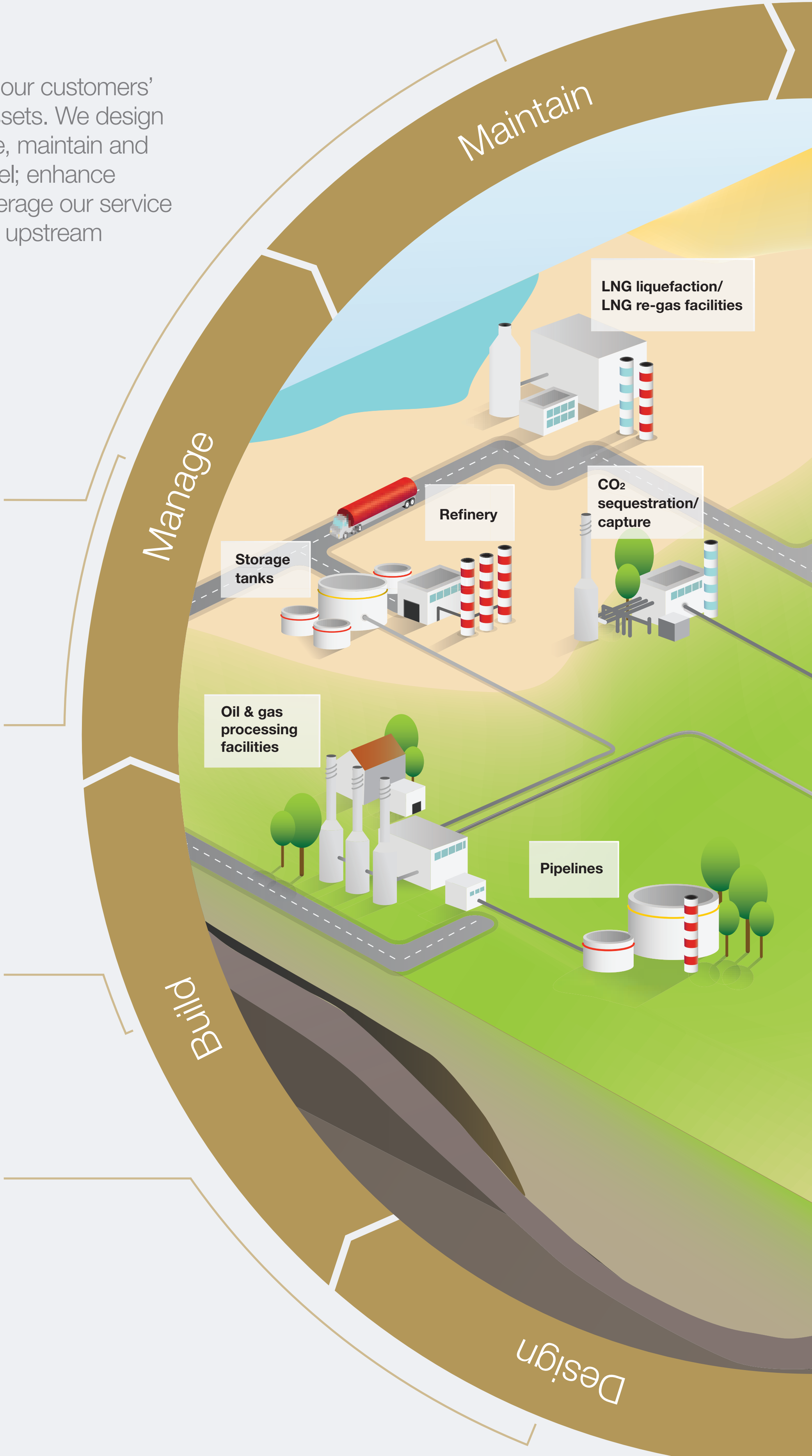
- the successful demerger of Petrofac's UKCS assets to create EnQuest PLC, in the first demonstration of our 'build and harvest' strategy
- good progress on operational assets – Cendor in Malaysia, Ohanet in Algeria, Chergui, in Tunisia, and the Kyrgyz Petroleum Company refinery, in Kyrgyzstan
- a 20% interest acquired in Gateway Storage Company to develop the Gateway Gas Storage project in the East Irish Sea
- acquisition of UK-based $CO_2$DeepStore provides investment and services capability for $CO_2$ storage projects
- in early 2011, a risk service contract to lead the development of the Berantai field, signed with PETRONAS, in Malaysia

### Key capabilities

- in conjunction with Production Solutions, Energy Developments provides integrated services for resource holders through technical, operational, commercial and asset management skills
- projects cover upstream developments, both greenfield and brownfield, and related energy infrastructure projects, and this can include the provision of capital

# Our services

Petrofac's range of services meets our customers' needs across the full life cycle of assets. We design and build oil & gas facilities; operate, maintain and manage facilities and train personnel; enhance production; and, where we can leverage our service capability, develop and co-invest in upstream and infrastructure projects.




## Maintain

Our people understand the critical issues associated with oil & gas infrastructure. We provide engineering and construction solutions for planned facility modifications and upgrades, as well as ongoing operations and maintenance support, including project management.

## Manage

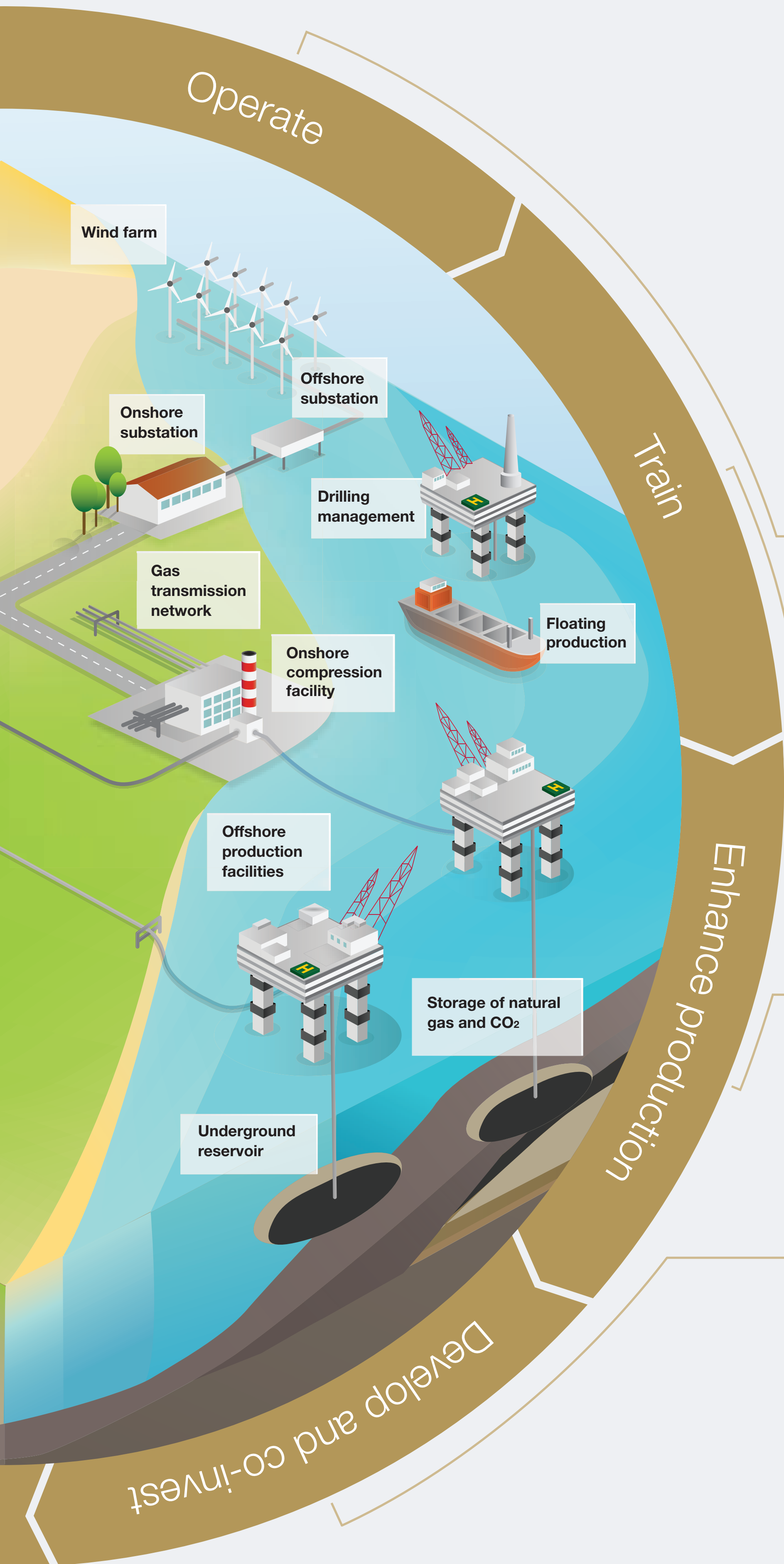
Petrofac has an intimate understanding of operations management, having pioneered the Duty Holder concept in the UK North Sea. We can provide a complete managed service, covering production and maintenance work, both offshore and onshore, to reduce the costs of operating and extend the life of the facilities.

## Build

Based on our customers' requirements we can deliver our integrated engineering, procurement and construction services through a variety of contracting models ranging from cost-reimbursable contracts to billion Dollar lump-sum turnkey projects.

## Design

Petrofac's design capabilities are founded on the combination of our extensive practical experience with our knowledge of the latest technical developments. Our skills in project management, conceptual engineering and front-end engineering and design and our in-depth knowledge of construction and production operations enable us to optimise development plans to better meet our customers' needs.




## Operate

Petrofac's breadth of skills and experience in production engineering, drilling management and operations are combined with our commercial flexibility to enable us to provide integrated services for oil & gas assets under a variety of commercial frameworks.

## Train

Our global training operations, which include 15 facilities in six countries, train around 50,000 delegates annually. Our integrated approach enables our customers to build more competent, safe and efficient workforces to support their operations wherever they are in the world.

## Enhance production

Petrofac aims to align itself with the interests of resource holders. We can do this through the creation of commercial structures where our remuneration is dependent upon our ability to improve production and reservoir recovery. This is achieved through the deployment of our extensive service capabilities and project management skills.

## Develop and co-invest

We draw on the extensive capabilities of our wider group to provide a fully integrated service for resource holders. Our offering includes flexible commercial models that are aligned to specific customer requirements and can include the provision of capital.

**Developing our marketplace**
International expansion is core to Petrofac's growth strategy. Moving into new countries does much more than boost our short-term income. New territories offer the opportunity to build new relationships, develop additional capabilities and establish new teams; all of which help to generate future growth.

In our geographical expansion, as in other areas of development, we are advancing in a measured and well-planned way. We are remaining focused on our core markets of the UK Continental Shelf, the Middle East and Africa, the Commonwealth of Independent States and the Asia Pacific region and, above all, quality of execution remains our key priority.

…opens up opportunities for future growth

**Nigeria**
In November, we achieved a local presence in Nigeria by acquiring a 15% interest in Seven Energy, a Nigerian production and development company, whose production, processing and transportation assets we will help develop.

**Turkmenistan**
In December we began the US$3.4 billion EPC phase of the South Yoloten gas field development for Turkmengas in Turkmenistan.

**Romania**
In July, we secured our first production enhancement contract, for the Petrom-owned Ticleni oilfield in Romania. Our offering includes: drilling management, production engineering, facilities upgrade and training and we are paid a tariff per barrel of oil produced including an enhanced tariff for incremental production.

**Iraq**
We established operations in Iraq in mid-2010 and began working for an international oil company to undertake the engineering, procurement, fabrication and construction management services for an early production system, which we hope will lead to a larger contract in the future.

# Building long-term relationships...

**Generating value for all our stakeholders**
Our broad range of competencies allow us to offer an integrated range of services across the entire life cycle of oil & gas assets; providing customers with the reassurance and consistency of having one trusted partner for many of their needs. We aim to demonstrate how the integrated delivery of our services can add significant value for resource holders, where they retain full ownership of their resources and our returns are linked to project delivery, to create perfect alignment with their objectives.

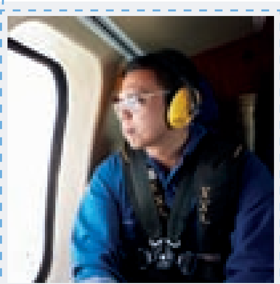
The value of our creative approach – to both customers and our shareholders – has been demonstrated in Malaysia, where we are working on a number of important projects with PETRONAS, the national oil company.

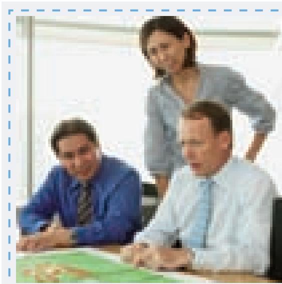
# ...by delivering creative solutions to customers and partners

In December, PETRONAS awarded us a contract for the development of the SEPAT offshore early production system on the east coast of Peninsular Malaysia. The award marks our first major offshore engineering, procurement, construction, installation and commissioning contract.

In early 2011, we won a risk service contract to lead the development and operation of the Berantai field, offshore Peninsular Malaysia.
Our payment is linked to performance against such measures as costs, timing to first gas and sustained gas delivery.

As a result Petrofac is now responsible for more than US$2 billion of offshore projects in Malaysia.



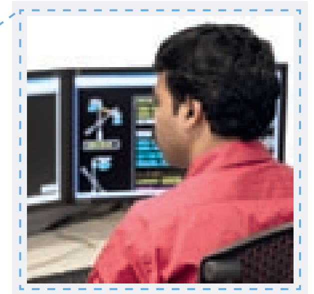


**Creative relationships at Cendor**

During 2010, we secured approval for our field development programme for the second phase of the development of the Cendor Block, offshore Peninsular Malaysia. Since 2004, Petrofac has been a partner, holding a 30% interest within a production sharing contract, with PETRONAS, Kuwait Foreign Petroleum Exploration Company (KUFPEC) and PetroVietnam.

Sustained
investment...

# ...ensures our future systems are integrated and streamlined



**Investing in advanced technology for integrating systems**

In November 2010, Petrofac began its phased roll out of Project TEMPO, our new ERP system, and our Indian and Malaysian offices were the first to 'go live'.

The next stage will be the implementation in our UK businesses.

The new resource allows us to consolidate core business data and replaces more than 20 existing legacy systems. By standardising many practices, it will make us more productive, efficient and responsive to customers. The system, which was in planning for 18 months, has the scalability and robustness to support Petrofac's future needs.

**Building strong foundations for growth**

Petrofac is a progressive business focused on long-term sustainability. To ensure we have a robust foundation and consistent approach we are making significant structural investments across the organisation. In 2010, we began the phased roll out of our new Oracle enterprise resource planning (ERP) system, TEMPO (Technology to EMpower the Petrofac Organisation); launched a group-wide customer relationship management tool, and, in Saudi Arabia and Abu Dhabi, introduced intranet-supported quality management systems.

Group-wide systems enable us to implement unified processes across the Company – such as our new global performance management capability, which includes a common behavioural competence framework and clearer visibility of development needs. Such consistency helps bind our growing international business together and improves our customers' service levels.

# We seek the best and brightest people...

**Our differentiating culture**
Petrofac's people are the key to our success.

Our employees believe in and live our Company values. Petrofac people are: safe, ethical, innovative, cost-conscious, responsive to customers and focus relentlessly on delivering results. This is not just our view; our most recent employee survey (2009) showed 91% of participants support Petrofac's values. This strong support reflects the high level of employee equity, with almost one third being members of our share incentive schemes.

Our common values and purpose do not mean we are all the same. We embrace diversity: reflecting the international nature of our operations and customer base, our employees are drawn from more than 70 nationalities.

As we grow, maintaining the unique 'DNA' of our business and the strength of our people's commitment will be central to our continuing success.

...and invest
in their future
with us

**People in Petrofac**

Developing our people is a business priority. It helps retain the best employees and ensures we have the right technical and managerial skills to deliver our projects and grow our Company. In 2010, our talent management programme supported every level of employee: we introduced systems to improve individual development plans for all staff; designed challenging programmes for recent graduate recruits; created a leadership development programme with the London Business School and held a leadership conference for around 70 senior managers.

# Chairman's statement

2010 has been another very successful year for Petrofac. Our track record for delivery, our strategic focus on areas of sustained demand, our increasing capabilities and scale and our strong relationships have again contributed to record results. Revenue increased by 19% to US$4,354 million and net profits rose by 58% to US$557.8 million.

**The global marketplace**
These results were achieved despite continuing worldwide economic uncertainty. Our performance was assisted by a healthy demand for energy during the year, from both established and developing economies. The fact that many of our customers are national oil companies, which have continued to press on with capital investment, was also beneficial in 2010. Notwithstanding, it is important to remain very aware of the continuing weakness in the world economy. The threat of tightening trade barriers and of escalating tensions in volatile regions are potential risks to economic growth.

The tragic explosion on the Deepwater Horizon drilling rig in the Gulf of Mexico last April underlined the risks in our industry. The resulting spill from the Macondo well and its environmental, commercial and political impacts are a reminder of the challenges we face every day – and the constant need for vigilance. This event has changed perceptions of our industry and the way it operates, highlighting the importance of the relationship between oil companies and the contracting industry.

**Our progress in 2010**
Key milestones demonstrated the value of our clear and consistent strategy during the year. Major new business awards – including a US$600 million gas sweetening facilities contract for Qatar Petroleum and two projects for the Kuwait Oil Company, worth a total of US$830 million – indicated the strength of our service offering.

Other contracts fulfilled long-held strategic ambitions. Our contract with Petrom in Romania, covering the Ticleni oilfield and its satellite fields, for example, marked the first production enhancement services contract for our Production Solutions business, which has been assessing such opportunities for some time.

During the year we made important step-outs into new markets. We began working on a new contract marking our entry into Iraq and completed the conversion of the second phase of the US$3.4 billion contract for the South Yoloten field in Turkmenistan.

New investments supported our strategic ambitions. Our alliance with Seven Energy, a leading Nigerian production and development company, gives us the opportunity to develop a local presence in Nigeria. Our commitment to extending our service offering saw us buy two UK businesses in renewable energy (alongside two other complementary acquisitions in the year).

The successful demerging of our UK Continental Shelf assets to a new company, EnQuest PLC, emphasised the validity of our Energy Developments business' 'build and harvest' strategy. The demerger was of significant commercial benefit to Petrofac shareholders, who at the time of demerger received one EnQuest share for every Petrofac share owned, representing 45% ownership of EnQuest PLC at the time of its initial public offering.

**Supporting our customers**
We have continued our policy of maintaining a conservative balance sheet, with strong cash reserves and minimal debt. We believe that such financial strength acts to reassure customers that we are here for the long-term.

Our long-term contribution to customers is also apparent in our fundamental commitment to employing as many local people on our projects as we can. In addition, our ability to provide training programmes and facilities help our customers to create national workforces, with indigenous workers being equipped for a lifetime's employment, providing economic benefit to individuals and their wider communities.

**Building a sustainable business**
When a company grows as fast as Petrofac has, it is vital that internal processes and systems develop accordingly. In 2010 we took further steps to ensure that our business maintains the efficiency of its core systems.

To enable Petrofac to continue to be led and staffed by able and experienced men and women, we strengthened our recruitment, development and succession planning processes across the business.

Working in an exacting industry, in challenging conditions and geographies on increasingly complex projects, taking risk is an integral part of what we do. To manage such risk effectively, in 2010, Petrofac's Board Risk Committee again deepened its oversight role while the wider business further embedded its risk management procedures and systems.

**Dividends**
The Company proposes a final dividend of 30.00 cents per ordinary share for the year ended 31 December 2010 (2009: 25.10 cents), which, if approved, will be paid on 20 May 2011 to eligible shareholders on the register at 26 April 2011. Shareholders who have not elected (before 4 March 2011) to receive dividends in US Dollars will receive a Sterling equivalent of 18.42 pence per ordinary share. Together with the interim dividend of 13.80 cents (2009: 10.70 cents), equivalent to 8.91 pence, this gives a total dividend for the year of 43.80 cents per ordinary share (2009: 35.80 cents), an increase of 22.3%.

**Our Board**
Our customers and employees come from numerous geographies and cultures: it is essential that our Board reflects that diversity. In 2010, two new non-executive directors, Thomas Thune Andersen and Stefano Cao, brought valuable fresh experience and ideas to our Board. Having directors with a broad range of experiences and perspectives enables us to learn from each other and grow. This year, we complemented that learning with an external Board evaluation. One of the outcomes of this useful exercise was a commitment to a greater focus on strategy; consequently, the time devoted to strategic discussion has doubled. The necessary reinvigoration of the Board has continued in 2011, with the addition of Andy Inglis, recently appointed Chief Executive of Energy Developments and Production Solutions and a former BP board director. Roxanne Decyk, whose long executive career included 11 years with The Royal Dutch Shell Group, has recently joined the Board as a non-executive director. Norman Murray, chairman of Cairn Energy PLC and co-founder and former chairman of Morgan Grenfell Private Equity Limited has also joined our Board and, subject to shareholder approval, will succeed me as Chairman following the conclusion of the AGM on 13 May. In line with Petrofac's rotation policy, I am stepping down after six fascinating and highly enjoyable years. I have no doubt that Andy, Norman and Roxanne will each make a significant individual contribution to the Board and I wish them well.

In another change, Kjell Almskog will also retire from the Petrofac Board this year. I would like to thank Kjell for his significant contribution during his six years on our Board, most recently as Senior Independent Director.

**Our people**
In my time with Petrofac the business has changed and grown enormously. What has not changed has been the commitment, diligence and ownership displayed by our men and women. Such attributes may be due to the fact that, with more than 30% of employees being shareholders or participants in share schemes, many do literally 'own' the business. I would like to pay heartfelt tribute to our people and to the professional way they deliver high quality solutions to our customers in some of the most challenging locations in the world. They have created an absolutely exceptional firm.

**Outlook**
2010 has been an exceptional year for us, with a record intake of new orders, which gives us outstanding revenue visibility and brings exciting opportunities for us to develop our capability and to deliver it into new markets.

With this strong financial underpinning, our differentiated and competitive offering and our proven excellence in project execution, we are confident that we will continue to deliver superior value for our customers and sector-leading returns for our shareholders.

I thank our shareholders, customers and suppliers for their support in 2010 and for my entire time as Chairman. I am confident that Petrofac will continue to deliver outstanding performance in the years ahead.

**Rodney Chase**
Chairman

# Interview with the Group Chief Executive

Petrofac's Group Chief Executive, Ayman Asfari, comments on the progress made by the Company during 2010 and its plans for the future.

**Petrofac has delivered another exceptional set of results. Why was 2010 such a good year?**
Many factors played a part: significant contract wins, moves into new geographies and the successful completion of a number of projects. Fundamentally, however, we delivered record results once again because we remained focused on our customers, on attention to detail and on excellence in delivery and execution.

**What were the highlights?**
The year's highlights, and they occurred right across the Petrofac group, were all characterised by us breaking new ground.

We reaped the first rewards of our 'build and harvest' strategy with the demerging of our UK Continental Shelf (UKCS) assets to EnQuest PLC where they were combined with the UKCS assets of Lundin Petroleum AB in a separate listed entity. This crystallised a significant gain for Petrofac, demonstrated the value of our investment model and also enabled Petrofac shareholders to participate as shareholders in a production and development company which has since gone on to create even more value as a public company.

Commencing work on the second phase of the South Yoloten gas processing plant construction project in Turkmenistan, a new and important market for Petrofac, was another milestone. The US$3.4 billion engineering, procurement and commissioning project is the largest lump-sum turnkey contract that we have ever signed. We are very pleased to be working with Turkmengas, the state-owned national gas company, on this project and our initial planning and set-up studies have given us confidence that we can maintain our high standards and first class project delivery for this world-scale project which is due to be completed in 2013.

Our production enhancement services contract for the Ticleni oilfield in Romania was another breakthrough. The 15-year contract, which we estimate will be worth US$270 million in the first five years, involves us taking full operational responsibility for this mature field on behalf of Petrom, Romania's largest oil & gas group. It marks both our first production enhancement services contract, something we had been targeting for some time, and our first project in Romania.

Another advance came with our appointment by Total to develop the Laggan Tormore gas processing plant on the Shetland Islands. The £500 million award is our first predominantly lump-sum engineering, procurement and construction contract in the UK, and is a significant award for our Offshore Engineering & Operations business which will also draw on the support of our established Engineering & Construction business to deliver the project.

Another great moment was the inauguration of Syria's National Training Centre, the country's first ever oil & gas training facility, which we designed, refurbished and equipped. The inauguration event coincided with our annual investor trip and around 50 investors and financial analysts were present when the Syrian Prime Minister, His Excellency Mohammad Naji Ottri, inaugurated the facility. Our gift of the centre to the Syrian Government, in support of its drive to develop more skilled oil & gas personnel, was the most significant donation we have ever made and emphasised our commitment to the communities in which we work.

As well as these exciting new projects and awards we kept our focus on execution. We successfully completed the Ebla gas plant in Syria for PetroCanada, two months ahead of schedule and have substantially completed: the Jihar gas plant in Syria for the Hayan Petroleum Company, the Harweel cluster development for Petroleum Development Oman, the Mina Al-Ahmadi refinery pipelines project for Kuwait Oil Company and the In Salah Gas compression project for Sonatrach, BP and Statoil in Algeria.

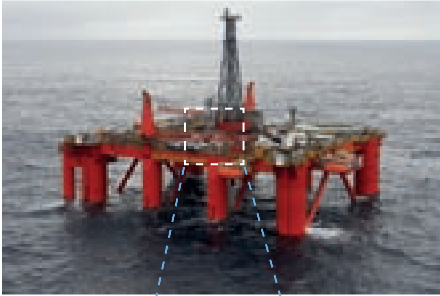
**Petrofac is changing as it grows. In 2010, for example, you extended your service offering and moved into new countries. What is your growth strategy?**
Petrofac is still a focused oil & gas business operating mainly in the upstream sector. We are changing, but in an evolutionary way.

Our growth strategy has two main elements: first, it will be built on deepening our competencies in order to become more active across the entire value chain. We will also continue to pursue opportunities in new countries, where we see potential for growth and development.

**How do you intend to operate across the 'entire value chain'?**
We want to deepen and extend our capability so that we can operate much more widely across the life cycle of an asset, from concept definition and drilling management to delivering a turnkey development.

That process has been under way for some time. Our engineering and construction roots are now complemented by other strengths, such as our strong operations management, training and consulting businesses. In 2010, our appointment by the Malaysian national oil company, PETRONAS to develop the SEPAT offshore early production system and our move into the field development programme for the second phase of the Cendor project, also in Malaysia, significantly expanded our offshore engineering activity.

# Interview with the Group Chief Executive continued



We believe we can create additional value for our customers by integrating services and delivering them through a different, service-led approach. This will give customers the full capability they need while enabling them to retain full ownership of their resources.

Our contract to lead the development of the Berantai field, which we signed just after the year-end, shows the potential for this type of integrated service contract and how it can generate additional value for both customers and for us. We will develop and operate the Berantai field offshore Malaysia, again for PETRONAS, for seven years after the first production of gas. Alongside two local partners, we will be responsible for providing and integrating a full range of services – from design and construction to subsurface technical services and operations.

The innovative commercial framework, whereby PETRONAS retains full ownership of its resources while our returns are linked to the delivery of the project, illustrates our commercial flexibility and commitment to creating true alignment with the objectives of resource holders.

**How swiftly do you intend to expand geographically?**
Building foundations in new markets, as we did in Turkmenistan, Nigeria and Iraq in 2010, is a major focus. To ensure that we get it absolutely right for our customers and shareholders, we are expanding in a very measured way geographically; aiming to add a selected number of markets each year.

**In 2010, you made a number of relatively small acquisitions. Are you actively looking for further acquisitions?**
We are interested in making acquisitions, but only those that fulfil a strong strategic rationale or offer real synergies as we grow. Our new energy businesses, $CO_2$DeepStore Limited, a leading developer of $CO_2$ storage projects, and TNEI Services Limited, a renewable energy specialist, for instance, offer a platform for potential future growth in the emerging low carbon world.

**As you evolve, how will you maintain the core qualities that have made Petrofac successful?**
In the coming years we expect to recruit many thousands more staff. As our organisation expands, retaining our unique culture and being true to our values will be essential.

This culture or 'DNA' encompasses important things like taking ownership of problems, keeping a relentless focus on project

"There is no doubt that in the last 30 years Petrofac has achieved a great deal but, if we stay focused on execution and delivery, as I am sure we will, we have a fantastic journey ahead."



execution, being safe and responsive to our customers, and maintaining a focus on close management of costs. If we get these fundamental aspects of our business right then we have a strong foundation from which to grow.

While we are developing new capabilities and executing our differentiated business model, particularly in the areas of offshore engineering and providing integrated services for resource holders, we remain as committed to the core activities that have made us successful so far. We will go on growing our lump-sum turnkey and operations management activities in both existing and new markets.

**You have invested in strengthening your internal systems this year with, for example, the first roll-out of Petrofac's group-wide enterprise resource planning (ERP) system and new HR processes. Why was this necessary?**
Petrofac has grown very fast. Within six years of our initial public offering, we have achieved more than a seven-fold increase in market capitalisation and have more than doubled our employee headcount.

So, our systems must be robust. They must allow Petrofac to be consistent and scalable, support strong governance and effective risk management, and help us to ensure we have the right people, with the right skills, both now and in the future.

The strengthening of our corporate functions and systems, so they serve as a stronger resource for the business, has been a continuing priority for a number of years. Throughout this process, we have identified what is already working well and have acted to enhance it and spread best practice throughout the organisation. Central to this development is the implementation of our new ERP system 'TEMPO' (Technology to EMpower the Petrofac Organisation), but this was not simply imposed on the business, instead we chose the very best processes from those already operating in the business and tailored the system around them. We are determined that our corporate functions should support our entrepreneurial business style, not just be a bureaucratic overlay to it.

**Petrofac attracted major oil & gas executives to its Board this year, in both executive and non-executive roles (see page 70 for details). What do they bring to the Company?**
They bring many things, not least a deep knowledge of the industry and a thorough understanding of customer needs, having come from international oil companies. More importantly, they bring experience of how some of the world's most successful companies think and work. I am sure that they will provide invaluable insights that will help us as we continue to develop our own organisation.

Our new directors are building on strong foundations. I would like to thank our outgoing Chairman, Rodney Chase, who has led our Board very effectively for six years and in this time has made a significant contribution to our success. Also retiring from our Board at the AGM is Senior Independent Director, Kjell Almskog. Kjell has served on our Board for six years and I thank him for his valued contribution during this time.

**Why are major industry figures attracted to Petrofac?**
I think we are becoming an increasingly attractive employer for staff at all levels. People see us as doing things differently to others in the industry. They are joining us because they want to be part of our success and to contribute to our future growth.

**What do you believe has characterised Petrofac's success to date?**
Our success is rooted in our people and our culture. We have a great team of exceptional individuals who are very motivated and driven. They personify the Petrofac culture and values.

The high level of employee share ownership also helps explain why we are different – and our success. Almost one in three of our people participate in one or more of our share schemes and I believe that this creates a huge degree of alignment between employees, the Company and our external shareholders: they all share one aspiration of building long-term sustainable value.

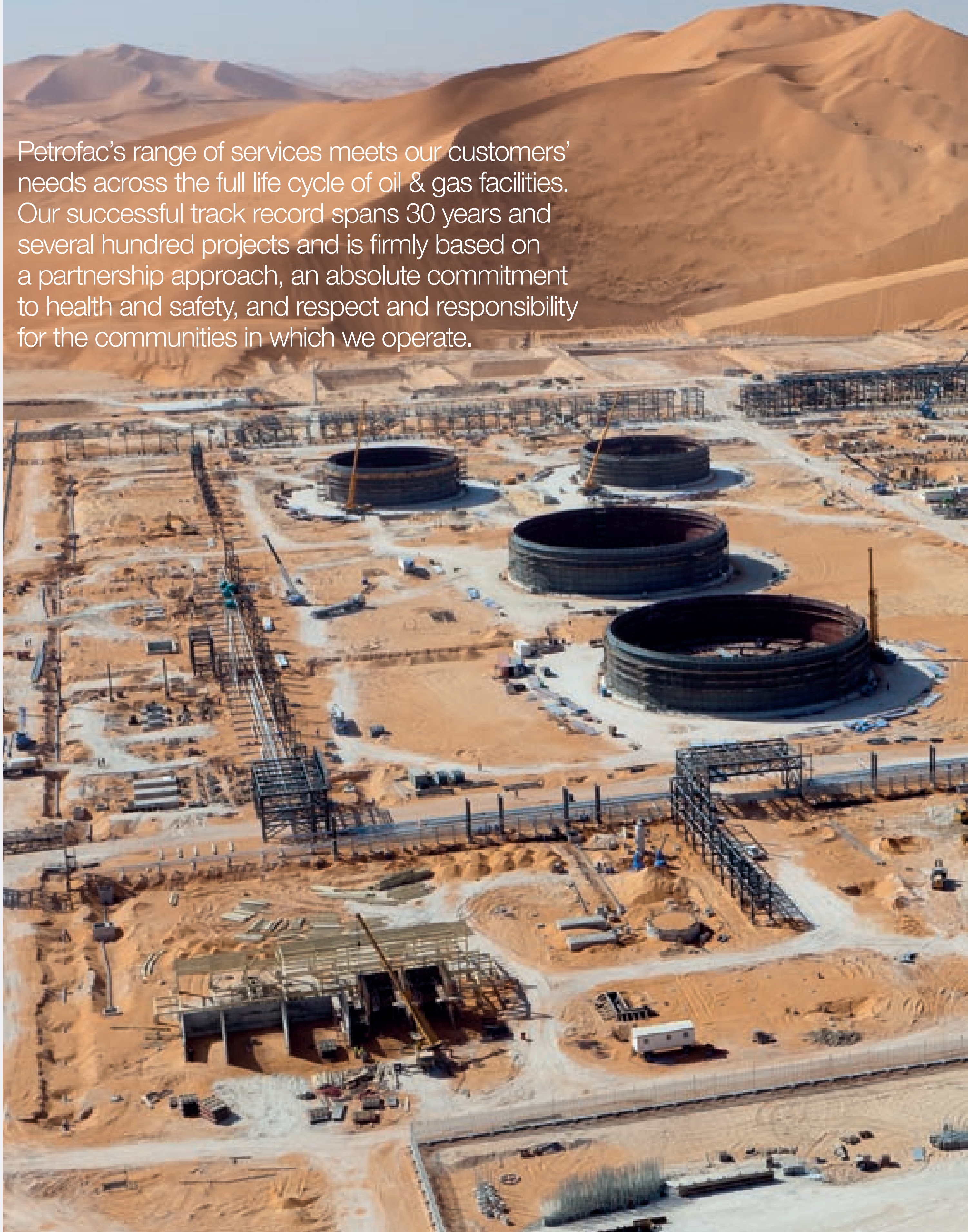
Although we have continued to make great progress, we remain vigilant to complacency, and are focused on continually developing our people and evolving our business to stay at pace with the changing needs of our customers.

**2011 marks the 30th anniversary of the foundation of Petrofac and the 20th anniversary of you joining the Company. Can Petrofac remain successful over the long-term?**
Absolutely! The 2010 Annual Report theme – 'We've come a long way but the journey is just beginning' – is absolutely right. Before we look forward, I would like to briefly look back and thank everyone who contributed to our journey over the last three decades, especially Ralph Martin, who passed away in February this year. As one of Petrofac's original founders Ralph was an inspiration to everyone that knew and worked with him. We all miss him a great deal.

There is no doubt that in the last 30 years Petrofac has achieved a great deal but, if we stay focused on execution and delivery, as I am sure we will, we have a fantastic journey ahead. In the coming years, I am confident that we will continue to create value for our shareholders and maintain our strong growth trajectory. I am looking forward to participating in this next stage of our journey.

**Ayman Asfari**
Group Chief Executive

# Operating review



Petrofac's range of services meets our customers' needs across the full life cycle of oil & gas facilities. Our successful track record spans 30 years and several hundred projects and is firmly based on a partnership approach, an absolute commitment to health and safety, and respect and responsibility for the communities in which we operate.

# Strategy

We have delivered against a consistent strategy. Our vision is for Petrofac to be the global oil & gas industry's premier facilities and infrastructure provider, admired by customers and employees for delivering consistently and rewarding excellence.

This means:

- working to world-class standards
- focusing always on customer satisfaction
- respecting the environment and being sensitive to the communities in which we work
- promoting and rewarding on merit

We aim to achieve our vision by delivering against seven key strategic initiatives. Our progress during the year and some of our future plans are outlined in the following pages:

**Safety and integrity**
**Services across the asset life cycle**
**New regions**
**Integrated services for resource holders**
**Training and hiring local resources**
**Attracting and retaining key personnel**
**Acquiring complementary businesses**

# Our strategic initiatives

## Maintaining and improving our high safety and integrity standards wherever we work

We operate in some difficult and hazardous environments and the safety of our people is paramount at all times. We aim to provide a safe working environment for all operations that are designed, constructed, operated, managed or supported by Petrofac.

### Developments during 2010

- we designated 2010 as the Year of Integrity and Quality across our engineering businesses and created the role of Director of Integrity to champion best practice. Technical integrity was also the theme of our annual safety seminar, which was attended by 90 senior managers, including our Group Chief Executive, Group Chief Operating Officer and our seven business unit managing directors
- during the year, our employees and subcontractors completed 76 million man-hours (2009: 70 million) of activity. Our lost time injury and recordable injury frequency rates are key performance indicators and are reported on page 29 and summarised as follows:
- our recordable incident frequency rate for 2010 fell considerably to 0.18 per 200,000 man-hours (2009: 0.36), which compares well with industry published data. Our lost time injury frequency rate was slightly higher at 0.026 per 200,000 man-hours (2009: 0.020), after four successive years of improvement to 2009
- the 2010 lost time statistics above include one fatality, which is detailed on page 60

### Future milestones

- our health and safety performance is reviewed in full on pages 60 and 61 in the corporate social responsibility report. Through campaigns such as 'horizon zero', we are committed to improving our safety performance

## Providing a range of services across the life cycle of the energy asset

We aim to provide a range of services that meet our customers' needs across the life cycle of oil & gas assets. Our services include the design and build of oil & gas facilities, the operation, maintenance and management of facilities and personnel training.

### Developments during 2010

- the award of a contract in October 2010 for the development of the Laggan Tormore gas processing plant on the Shetland Islands forms part of the strategic growth plan for the Offshore Engineering & Operations business, being our first predominantly lump-sum engineering, procurement and construction (EPC) contract in the UK Continental Shelf (UKCS). We are confident that the combination of our UKCS operations, maintenance and engineering experience and our Engineering & Construction EPC track record can deliver success in this market
- in December 2010, we were awarded a contract for the development of the SEPAT offshore early production system on the east coast of Peninsular Malaysia. The contract represents our first major offshore engineering, procurement, construction, installation and commissioning (EPCIC) contract, and builds upon our offshore experience gained on Energy Developments' Don and Cendor projects
- through acquisition (see pages 45 and 48 for more detail), we have made the first steps to position ourselves in the renewable energy and low carbon sectors, which have the potential to be a material market for us over the long-term

### Future milestones

- our first major EPC award in the UKCS and our first significant offshore EPCIC contract give us the opportunity to build our credentials in these areas
- we will continue to review opportunities to expand our service offering to meet our strategic goals

## Expanding our offering into new regions, prioritising areas with major hydrocarbon reserves and significant capital and operational expenditures

While remaining focused on our key markets of the UKCS, the Middle East and Africa, the Commonwealth of Independent States and the Asia Pacific region, we aim to expand into new countries and regions that offer exciting growth opportunities, particularly where they are in close proximity to our existing operations.

### Developments during 2010

- throughout 2010, we worked on the US$100 million first phase of the South Yoloten project for Turkmengas in Turkmenistan. Following the successful completion of the first phase, we commenced the 31.5 month US$3.4 billion second phase in late December 2010. Turkmenistan is a market where we will be able to draw on our extensive experience of designing and constructing facilities to handle and process sour gas (see page 40 for more detail)
- we began working on our first major project in Iraq for an international oil company in mid-2010, undertaking the engineering, procurement, fabrication and construction management services for the development of a new early production system
- in November 2010, as well as acquiring a 15% interest (12.6% on a fully diluted basis), the group entered into a strategic alliance agreement with Seven Energy, a Nigerian production and development company, to assist in the development of its production, processing and transportation assets. We have been examining how to establish an ongoing local presence in Nigeria, a high growth market, for a number of years and we believe that this partnership gives us a platform to do so (see page 45 for more detail)

### Future milestones

- we aim to build upon our positions in Turkmenistan, Iraq and Nigeria over the next few years, as we anticipate significant capital and operational expenditure in these markets
- we will continue to look at measured expansion into new countries and regions, for example, central Africa

# Our strategic initiatives continued

## Providing fully integrated services for resource holders under flexible, tailored commercial models, which leverage our service capability and may include the provision of capital

Drawing on the extensive capabilities of the wider group, through our Energy Developments and Production Solutions business units, we seek to provide fully integrated services for resource holders under flexible commercial models that are aligned to their specific requirements.

### Developments during 2010

- a key part of Energy Developments' strategy is to consider divestment (or 'harvest') of assets once they have been developed. Following the commencement of oil production and significant progress on commissioning of the production infrastructure on the Don fields in the UKCS in 2009 and early 2010, we disposed of our interests through the EnQuest demerger in April 2010, thereby realising significant value for our shareholders (see page 46 for more detail)
- through Production Solutions, we secured our first production enhancement contract in July 2010 for the Ticleni oilfield and its eight satellite fields in Romania. Our services will cover a range of operations, drilling management, production engineering, facilities upgrade and training skills to increase production through improving recovery rates, optimising operational efficiencies and investing to upgrade the facilities (see page 44 for more detail)
- in early 2011, we were awarded a risk service contract (RSC) for the development of the Berantai field, offshore Peninsular Malaysia. The RSC represents a departure from the established production sharing contract (PSC) framework in Malaysia. We aim to demonstrate how the integrated delivery of our services can add significant value for resource holders under this alternative commercial framework (see page 48 for more detail)

### Future milestones

- we plan to create significant growth in the group and value for our shareholders through the provision of integrated services to resource holders

## Training and hiring local resources where we operate to help develop national workforces

There is an increasing demand from resource holders to use and develop local workforces as they seek wider economic benefit from the development of their energy infrastructure. We believe that understanding how to harness local resources effectively is key to our success.

### Developments during 2010

- the use of local resources, through direct employment and the use of local subcontractors, is becoming increasingly important in many of the countries in which we operate. Aided by our training capability, we have a long track record of working with local workforces and subcontractors
- in Turkmenistan, for example, the in-country team on the South Yoloten project has more than 70% local content, which represents a significant achievement in a country where the development of oil & gas reserves is in its early stages
- in October, we opened a state-of-the-art technical training centre in Syria, which we designed, refurbished and equipped, and which we will operate for five years. The centre, part of the Syrian Government's commitment to develop competent personnel for the growing oil & gas sector, has been donated by Petrofac as part of our long-term commitment to CSR and training (see page 66 for more details)

### Future milestones

- in late 2010, we commenced training operations at a facility in Hassi Messaoud, Algeria. In the years ahead we will look to train Algerian workers in piping, mechanical, electrical and instrumentation disciplines to support our activities in the country

## Attracting and retaining specialists and key personnel

We are a people business and skilled personnel remain in high demand. Policies to promote and reward on merit, targeted but extensive employee share ownership, a portfolio of world-class projects and exciting prospects are key to our continued success.

### Developments during 2010

- Petrofac has continued to be successful in accessing international labour markets, including graduates, in particular in the Middle East and the Indian subcontinent. We grew our headcount from 11,700 at the beginning of the year to approximately 13,900 at 31 December 2010
- the capacity and capability of our largest reporting segment, Engineering & Construction, has substantially increased over the year, with an increase in EPC headcount[1] from 5,600 to 7,000
- our share ownership plans play an important role in helping to attract and retain key personnel and in encouraging a culture of personal responsibility that is critical to our success. We extended the reach of our share plans during the year, and now have around 3,900 participants (31 December 2009: 3,000), representing around 30% (31 December 2009: 28%) of the eligible workforce

### Future milestones

- we plan to continue to broaden and strengthen our senior management team and to grow headcount, particularly in Engineering & Construction, through our existing operational centres, which will be supported by building a second tower adjacent to our largest operational centre in Sharjah, UAE, and by opening a third office in India, in Delhi

1 EPC headcount is defined as headcount of the Engineering & Construction reporting segment and the headcount of the Mumbai, Chennai and Jakarta offices that are managed through Engineering Services, but primarily support Engineering & Construction.

## Identifying, acquiring and growing complementary businesses where they expand our skill set and support our strategic goals

We have acquired 12 businesses in the last ten years to broaden our capability. Acquisitions have been in the areas of training, operations and maintenance, well operations management, production enhancement and the renewable energy and low carbon sectors.

### Developments during 2010

- in January 2010, we acquired Scotvalve Services Limited (Scotvalve), which provides servicing and repair for oilfield pressure control equipment. Scotvalve is headquartered in Aberdeen, but its interests in the Middle East and North Africa enable Offshore Engineering & Operations to provide repair and maintenance services within a wider geographic footprint
- in April 2010, we acquired Stephen Gillespie Consultants Limited (SGC), which designs and manufactures metering systems. SGC brings specialist capability and systems that will expand and differentiate Offshore Engineering & Operations' offering in metering services and enable us to provide managed solutions for our customers
- the acquisitions of TNEI Services Limited (TNEI), a specialist consultancy supporting the energy, power and renewable sectors, and $CO_2$DeepStore, a company focused on the $CO_2$ geological storage sector of the carbon capture and storage market, represent the first steps in positioning us in the renewable energy and low carbon sectors (see pages 45 and 48 for more details)

### Future milestones

- we will continue to review acquisition targets which broaden and deepen the capability of the group

# Key performance indicators

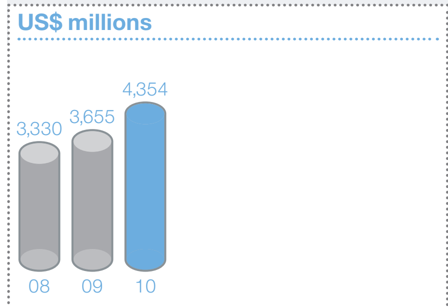
To help the group assess its performance, the Board and executive management set annual KPI targets and monitor and assess performance against these benchmarks every month. Throughout this Business Review, performance is assessed against these KPIs, the annual measures of which are presented here.

## Revenue

Measures the level of operating activity and growth of the business.

Revenue for the year as reported in the consolidated income statement.

US$ millions

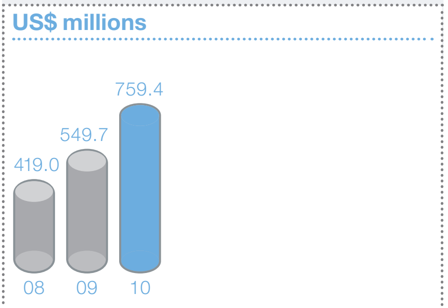



## EBITDA (including the gain on the EnQuest demerger)

EBITDA means earnings before interest, tax, depreciation, amortisation and impairment and provides a measure of the operating profitability of the business.

EBITDA is calculated as profit before tax and net finance income (as per the consolidated income statement) adjusted to add back charges for depreciation, amortisation and impairment charges (as per note 3 to the financial statements).

US$ millions

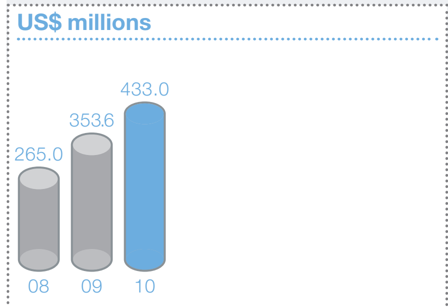



## Net profit (excluding the gain on the EnQuest demerger)

Provides a measure of the net profitability of the business, that is, profit for the year attributable to Petrofac Limited shareholders.

Profit for the year attributable to Petrofac Limited shareholders, excluding the gain on the EnQuest demerger, as reported in the consolidated income statement.

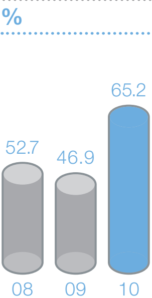
US$ millions



## Return on capital employed (ROCE)

ROCE is a measure of the efficiency with which the group is generating operating profits from its capital.
ROCE is calculated as EBITA (earnings before interest, tax, amortisation and impairment charges, calculated as EBITDA less depreciation per note 3 to the financial statements) divided by average capital employed (being total equity and non-current liabilities per the consolidated balance sheet).

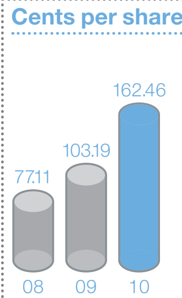
%




## Earnings per share (diluted) (EPS)

EPS provides a measure of net profitability of the group taking into account changes in the capital structure, for example, the issuance of additional share capital.
As reported in the consolidated income statement and calculated in accordance with note 7 to the financial statements.

Cents per share

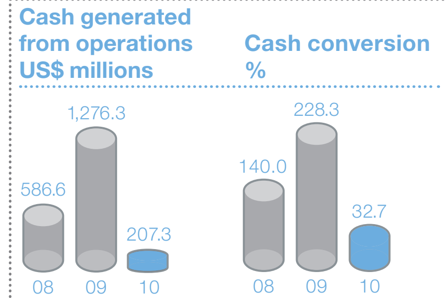



## Cash generated from operations and cash conversion

These KPIs measure both the absolute amount of cash generated from operations and the conversion of EBITDA to cash.
Cash generated from operations is as per the consolidated cash flow statement; cash conversion is cash from operations divided by EBITDA (excluding the gain on the EnQuest demerger in 2010).

Cash generated from operations US$ millions

Cash conversion %

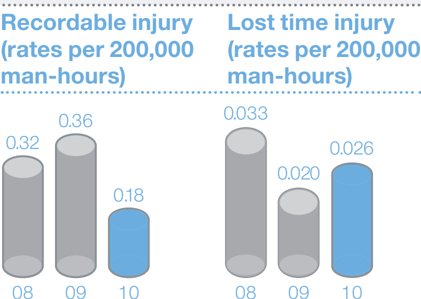



## Lost time injury and recordable injury frequency rates

Provides a measure of the safety performance of the group, including partners.
Lost time injury (LTI) and recordable injury (RI) frequency rates are measured on the basis of reported LTI and RI statistics for all Petrofac companies, subcontractors and partners, expressed as a frequency rate per 200,000 man-hours. We aim to continually improve our safety record, but our target for these measures is zero.

Recordable injury (rates per 200,000 man-hours)

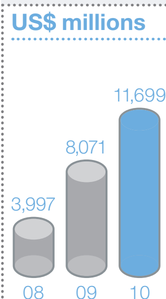
Lost time injury (rates per 200,000 man-hours)




## Backlog

The group uses this KPI as a measure of the visibility of future earnings.
Backlog consists of the estimated revenue attributable to the uncompleted portion of lump-sum engineering, procurement and construction contracts and variation orders plus, with regard to engineering services and facilities management contracts, the estimated revenue attributable to the lesser of the remaining term of the contract and, in the case of life-of-field facilities management contracts, five years; backlog is not an audited measure; other companies in the oil & gas industry may calculate this measure differently.

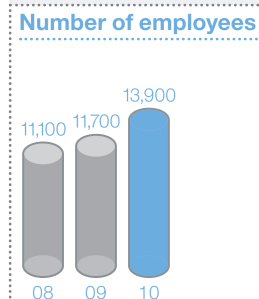
US$ millions




## Employee numbers

Provides an indication of the group's service capacity.
For the purposes of the Annual Report, employee numbers include agency, contract staff and the group's share of joint venture employees.

Number of employees



# Enterprise risk management and key risks

The management of risk is critical to the achievement of our corporate objectives. Without a robust risk management framework we could not, for example, maintain our high safety and integrity standards or continue to grow and expand our range of services, both technically and geographically.

Over and above the achievement of our corporate objectives, the management of risk is a crucial element of our competitive advantage and the subsequent creation and preservation of shareholder value. Our commercially-innovative and flexible business model, which generates differentiated returns, can involve taking on additional risk where it can be quantified and managed. As a result, efforts to make our enterprise risk management system comprehensive and robust are given high priority within the group.

The group's focus on risk was emphasised at our 2010 Leadership Conference, where senior management made a review of our risk management system one of the group's top priorities for 2011. Recommendations for change will be presented to the Board and outlined in the 2011 Annual Report and Accounts. The coming review is especially relevant given the 2010 publication of the Financial Reporting Council's new UK code, which introduced a number of changes, including a more explicit requirement on company boards to articulate risk appetite and identify the significant risks they are prepared to take.

## Enterprise risk management system

Our enterprise risk management system is designed to ensure that all significant risks to our reputation and shareholder value are appropriately monitored and mitigated in line with the Board's policy. These risks fall into three areas:

- industry risks – the systemic exposure to fluctuations in core commodity prices and demand for our services. These risks are reviewed and managed directly by the Board and our senior management team
- country risks – the exposure to external country factors that are inherent in the environments in which we operate, including security, political risk, legal risk and transparency, bribery and corruption, exchange rates and local infrastructure. Project teams ensure these risks are reviewed and appropriate responses are built into the structure of the project execution and contracting model, wherever possible. Our corporate functions monitor this risk environment and the Risk Committee of the Board provides additional review and oversight. The Board retains approval authority for any significant new country entry
- project-specific risks – pertaining to the execution of projects including technical risk, budget and schedule risk, performance guarantee levels, safety risk and environmental risk. These risks are directly managed by our project teams. They are also considered during the risk review process, which reviews all new business proposals before any formal commitments are entered into. Our business unit managing directors and their management teams report on discrete execution risks to the executive management team, at the monthly Executive Committee (ExCom) meetings. A summary of the discrete risks reviewed are reported to the Board at each scheduled meeting. Through this review process, a constant focus on maintaining and improving our execution capability is ensured

## Board level review

The Board has ultimate responsibility for managing risk. Its role is to ensure that the group defines its risk appetite; maintains a sound system of risk management and internal controls; and satisfies itself that appropriate systems are in place to identify, assess and manage key risks, in accordance with the terms of the new UK code.

In order to fulfil its responsibilities, the Board receives assurance from the following processes and committees:

### Direct Board level risk review

The Board directly reviews risk reports from each Petrofac business at every scheduled Board meeting. These reports cover all areas of risk but focus on project execution risks. They provide the Board with an update on specific discrete risks to our interests and the management strategies deployed to mitigate them. More details about the risk matrices produced by each business and reviewed by the Board are found on page 77.

### Risk Committee and Audit Committee

These committees focus on the overall balance of risk and the risk management systems within the Company.

The Risk Committee is comprised of non-executive directors (though executive management are in attendance). Its principal task is to review and monitor non-financial risks and to set policy and review compliance of the business in mitigation of these risks. The Committee achieves this through the approval of policies which are further discussed on page 77. To date, the Committee has approved three group policies: a Sovereign and Financial Market Risk Policy, an Ethical, Social and Regulatory Risk Policy, and an Operational and Contractual Risk Policy.

The ongoing review of these policies, and the consideration of group performance in complying with them, represents the Board's primary forum for assessing the effectiveness of our risk management framework. For example, during 2010 management made a number of changes to its commitments to monitor and mitigate risk in several areas throughout the group, including bribery and corruption, sovereign risk, counterparty risk and security risk.

The Audit Committee is also comprised of non-executive directors and among other responsibilities, it reviews the effectiveness of the group's financial and operational internal control systems. Our Internal Audit function receives all risk reports that are presented to the Board and the Risk Committee and shares its findings with the Audit Committee.

### Enterprise Risk Committee and Group Risk Review Committee

The Enterprise Risk Committee and Group Risk Review Committee look at country and project-specific risks associated with entry into certain new geographies or contractual commitments. They are not formal committees of the Board, they are management committees which are chaired by the Group Chief Operating Officer and the Group Chief Executive respectively.

The Enterprise Risk Committee, which was formed in 2009, focused its efforts during 2010 on country and third party-specific risks in high-risk territories. A list of such high-risk territories was defined by the Board in early 2010, and periodic review of this list will take place. A review now takes place where the group wishes to conduct new business in any predefined high-risk territory, whether we have previously operated there or not. In such cases, approval is required from the Group Chief Operating Officer or the Chief Executive of Energy Developments and Production Solutions. In 2010, the Enterprise Risk Committee met on an ad hoc basis to consider country and third party risks in countries including Iraq and Nigeria (both of which are classified as high-risk).

Pre-award, new projects and investments are reviewed by the business unit-level Risk Review Committee. Based on the delegated authority matrix, if the new commitment is of significant value, it will be escalated from the business unit committee to the Group Risk Review Committee, which meets as often as is required. From there, approval to commit to the project or investment will be required from the Group Chief Operating Officer or the Board, primarily based on project size and/or duration. The remit of this Committee extends beyond the consideration of new projects and includes:

- moving into new territories
- providing new services
- making capital investments
- entering lease commitments
- making acquisitions and/or establishing joint venture relationships

## Business unit-level review

Significant responsibility for risk identification, review and mitigation exists at the business unit level, as operational teams are closest to the detail of our business. As a result, we have well-established procedures embedded in the organisation for the management of risk.

### Business unit Risk Review Committee

Pre-award, all new projects and investments go through a robust risk review process at the business unit level. The first stage involves review at the project team level, involving bid risk analysis, cost and schedule risk analysis, commercial risk management plans and bid risk reporting. Subject to this review being completed satisfactorily, the potential award moves to review by the business unit Risk Review Committee.

The delegated authority framework defines the levels of review that are required based on the level of risk. Potential projects are approved at the business or group level or escalated to Board level review.

### Monthly Executive Committee

Post-award execution is managed by our project teams and continuously reviewed within business units by our executives on a weekly, monthly and quarterly basis. Issues arising from these sessions are picked up in the monthly Executive Committee, where the business unit managing directors meet with the Group Chief Executive and his direct reports to review both the performance of each business unit and its discrete risks. These meetings focus on strategies to address and mitigate the identified risks: these are reported to the Board (along with all discrete risks) at each scheduled Board meeting, as described above.

### Monthly risk reporting

In late 2010, we established a requirement for each business unit to produce monthly reports measuring the health of risk management within their business. This achieves a bottom-up consideration of strategic risk issues in each business, rather than relying on Board level review. A combination of qualitative and quantitative measures are taken of the following seven factors:

- the risk to achievement of the annual business plan and targets
- the level of market risk and competition
- the level of customer relationship risk
- the level of commercial and contractual risk
- the level of execution risk
- the level of counterparty risk
- the level of resource risk

The level of risk described in these reports will be incorporated into the risk report which is reviewed by the Board, as described above.

## Key risks

The key risks that could lead to a significant loss of reputation or prevent us from executing our strategy and creating shareholder value are summarised here, along with our approach to mitigating these risks and our progress during 2010.

# Enterprise risk management and key risks continued

| Industry risk | Description | Mitigation | Progress in 2010 |
|---|---|---|---|
| Level of demand for the group's services | The demand for our services is linked to the level of capital and operational expenditure by the oil & gas industry. | As noted in the 'Operating environment' section, we expect the demand for our services to remain robust over the long-term. Our recent success in securing substantial new contract awards gives us outstanding visibility of revenues through 2011 and beyond.<br><br>Our continuing geographic and service expansion has helped to grow the size of the addressable market for our services. | For information about how we are incrementally growing our geographic footprint and expanding our service offering, see our strategic initiatives on pages 25 and 26. |
| Oil & gas commodity prices | Long-term expectations of the price of oil & gas may have an impact on the level of new investment in the industry and may therefore affect demand for our services.<br><br>The financial performance of Energy Developments is more leveraged to the price of oil & gas through its co-investment in upstream oil & gas assets, and its financial results may therefore be impacted. | As detailed in the 'Operating environment' section, demand for our services should not be significantly impacted by short-term fluctuations in oil & gas prices and has proven robust despite significant volatility in oil & gas prices over the recent economic downturn.<br><br>Our formal policy to hedge a proportion of our direct exposure to oil & gas prices provides us with a degree of protection against fluctuations in the sale price variations for oil & gas.<br><br>Under our hedging policy we aim to hedge 75% of our forecast production levels for the next 12 months, using pre-defined hedging instruments and with pre-defined counterparties. We will not undertake hedging until a development has achieved steady-state production. | See note 33 to the financial statements for details of the oil & gas derivative instruments that were in place at 31 December 2010. |
| Availability of essential executive or project staff | The availability of skilled personnel remains one of the most significant challenges facing the oil & gas industry. | We remain confident that our policies to promote and reward on merit, targeted, but extensive, employee share ownership, management and technical training programmes and access to international labour markets, in particular the Middle East, Indian subcontinent and Asia, a portfolio of world-class projects and exciting prospects for continued growth will enable us to attract and retain the necessary skilled personnel to undertake our projects in hand. | We have increased the number of employee shareholders or participants in employee share schemes to approximately 3,900 (2009: 3,000).<br><br>We have decided to open a third Indian office, in Delhi, to tap another pool of resources, where the shortage of skilled engineers is less pronounced than in Western countries.<br><br>For more information about how we manage this risk, see our strategic initiatives on page 26. |

| Country risk | Description | Mitigation | Progress in 2010 |
|---|---|---|---|
| Security | We operate in a number of countries where the security risk is high. | Our Group Head of Security is responsible for undertaking reviews and establishing procedures for securing the safety of our personnel. We also use specialist consultancies and security services to advise us and to provide protection. | During 2010, we strengthened the resource dedicated to security management and invested in the development of sound security controls in key territories, particularly Iraq.<br><br>We redefined the use of the Enterprise Risk Committee, which now focuses on country and third party-risks in certain high-risk territories. |
| Business continuity | We are potentially exposed to, inter alia, natural hazards, acts of terrorism, war and civil unrest that could impact our infrastructure, either through the unavailability of physical assets or disrupted access to systems and data. | We have rigorous business continuity plans in place at each of our key operating centres, which are designed to ensure continued access to our critical business functions.<br><br>Of our six key operating centres, Woking and Aberdeen are fully certified and meet the BS 25999 certification standard. | During 2010, our Aberdeen operational centre achieved certification of its business continuity system, the first among its peers to do so.<br><br>In addition, the business continuity strategy at our Sharjah, Mumbai, Chennai, Jakarta and Kuala Lumpur offices has been fully implemented and is currently undergoing extensive testing. The certification process at these offices (excluding Kuala Lumpur) has been initiated and we expect this process to be completed in 2011. |

| Country risk | Description | Mitigation | Progress in 2010 |
|---|---|---|---|
| Exchange rates | Significant movements in exchange rates could impact our financial performance. | While we operate in a number of diverse geographical locations, the majority of our revenues are denominated in US Dollars or currencies pegged to the US Dollar. In contracts priced in US Dollars (or currencies pegged to the US Dollar) where the group is procuring equipment or incurring costs in other currencies, we aim to fully hedge transactional exposures using forward currency contracts.<br>Offshore Engineering & Operations' revenues and costs are principally denominated in Sterling. The group's policy is not to hedge the Sterling profits generated by these activities as they are substantially matched by the Sterling overhead costs of our corporate office and other UK-based businesses.<br>While we report our results in US Dollars, our share price is quoted in Sterling. Our share price may therefore be impacted by changes to the US Dollar/Sterling exchange rate. | See note 33 to the financial statements for details of our foreign currency exposures and how they are managed. |
| Sovereign change of law and contract enforcement | We operate in a number of countries where our ability to rely upon our contracts for protection is potentially reduced by the opaqueness of the legal system. | Management carefully monitors this risk. Wherever it is perceived to be significant, we will take all reasonable measures to reduce and limit the exposure through the use of, for example, out of country arbitration, advanced payments and careful cash management. Specific consideration of this risk is a feature of all new business risk reviews and is a major focus of the Risk Committee and the Board. | During 2010, we commenced a process to review the viability of securing sovereign risk insurance; we aim to complete this in 2011.<br>In 2010, the Board also approved a new standard on sovereign risk.<br>During 2011 the Board intends to define maximum sovereign risk exposures. |
| Breach of legal or regulatory code | We recognise the potential financial and reputational risk that could result from a breach of local or international laws, particularly in respect of behaviour relating to bribery and corruption. | As noted in the Corporate Governance Report on page 71, we have well-established policies and procedures to address these risks, including a Code of Business Conduct which all employees are required to confirm that they have read and understood. During 2010 we rolled out a Code of Business Conduct e-learning module.<br>Management takes a risk-based approach to due diligence and risk assessment and is increasing the level of due diligence undertaken in respect of new contracts in pre-defined high-risk countries, including commissioning independent investigation where appropriate. | During 2010, the Board approved a set of new Company-wide risk management procedures designed to protect the Company from exposure to bribery and corruption. Implementation of these new risk management procedures has begun and a training and communication programme for our employees will be rolled out in 2011.<br>During 2010, we increased our use of independent investigatory consultants in situations involving parties over which we have some influence, for example, joint venture partners, agents, subcontractors and, in some cases, our vendors. As a consequence of some of these investigations we took remedial action to reduce our risk.<br>During 2010, our Board made new commitments to review potential exposures to human rights issues in our operations. In 2011 we will review our systems for ensuring trade compliance with local laws and sanctions compliance, as well as refreshing our Code of Business Conduct. |

# Enterprise risk management and key risks continued

| Country risk | Description | Mitigation | Progress in 2010 |
|---|---|---|---|
| Political risk | We are exposed to potential regime change and civil unrest that could affect our operations. | We monitor carefully the changing landscape of political risk, particularly for countries that are regarded as high political risk environments. This is also reviewed regularly by the Board and the Board Risk Committee.<br><br>For high-risk countries our management will also seek to limit political risk exposure in individual contracts, when agreeing terms and conditions with our customers. | During 2010, we redefined the use of the Enterprise Risk Committee, which now focuses on country and third party risks in certain high-risk territories prior to Petrofac committing to new projects or investments.<br><br>We intend to acquire sovereign risk insurance in 2011. |
| **Project risk** | **Description** | **Mitigation** | **Progress in 2010** |
| Contract performance | Our financial performance could be materially affected by the performance of a relatively small number of large contracts, particularly those which are lump-sum. Furthermore, our operational performance is important in maintaining our reputation for successful project delivery. | We have a strong track-record of successful project execution which reflects our rigorous approach to risk identification and mitigation, from tender to project completion.<br><br>Our assurance frameworks for technical risk reviews involve the progress made on key projects being formally reported to the Board and senior management on a regular basis.<br><br>Our design integrity assurance process involves the robust challenge of design specifications, whether or not they are defined by the customer, including peer assessment. We undertake ongoing reviews of integrity risk throughout the life of a project.<br><br>Our subcontractor risk management strategy involves the retention of competent subcontractors with a track record of delivery, combined with the use of local companies as is often required by law. We have a number of strong subcontractor relationships with proven high quality companies that we seek to work with wherever possible.<br><br>As regards financial performance, we do not recognise profits in the early stages of lump-sum contracts and we maintain contingencies to cover unforeseen cost increases. | During 2010, we took steps to mitigate significant risk on new contracts:<br>▪ in Turkmenistan, we structured our contract in two stages, so that we could measure and mitigate risk before committing ourselves to the larger EPC phase<br>▪ in Iraq, we decided not to take lump-sum construction risk on our first major project in the country. Instead, we are working on a lump-sum engineering and procurement basis and a reimbursable construction management basis<br>▪ our acquisition of a stake in Seven Energy has provided us with a lower risk entry into the Nigerian market, and the opportunity to gain experience in the operating environment before taking on an enlarged scope of work |

| Project risk | Description | Mitigation | Progress in 2010 |
|---|---|---|---|
| Counterparty | There is a risk of commercial counterparties defaulting on payment terms or financial counterparties defaulting on deposits that we hold with them. | In Engineering & Construction, we typically receive advance payments on contracts, which generally have positive cash flow profiles over the duration of the contract.<br>In Offshore Engineering & Operations, many contracts are neutrally-funded or have modest working capital requirements. Our services are often critical in ensuring that customers continue to produce oil & gas and, consequently, they are likely to honour contractual terms. In some cases we request a parent company guarantee or a letter of credit to further mitigate counterparty risk. In Energy Developments, remuneration is from oil & gas sales to a range of customers, including national oil companies, who are generally well-funded. Nonetheless, the group continues to regularly monitor its receivable balances and take appropriate action where necessary.<br>With respect to counterparty risk arising from other financial assets, we regularly monitor our exposure and ensure that our financial assets are spread across a large number of creditworthy financial institutions. Our sovereign and financial market risk policy has established limits on counterparty exposure.<br>Further analysis of credit risk and other financial risks associated with or managed through the use of financial instruments, such as interest rate and liquidity risk, are disclosed in note 33 to the financial statements. | At the end of 2010, we converted into the larger EPC phase of the South Yoloten contract in Turkmenistan. As this is our largest contract to date, we have secured a larger than normal cash advance from the customer as a way of mitigating counterparty risk.<br>Financial counterparty exposure is now reviewed on a monthly basis by the Treasury Management Committee and material exposures are monitored daily by group Treasury.<br>During 2010, we redefined our financial counterparty limits and our risk management strategy of counterparty risk, both of which were approved by the Board. |
| Cost inflation | Unexpected inflation in costs could adversely impact the financial performance of our contracts. | Our largest exposure to cost inflation is in the provision of lump-sum Engineering & Construction services. Our exposure to increases in capital expenditure costs associated with Energy Developments' projects is managed in a similar manner to lump-sum Engineering & Construction projects.<br>The majority of the costs of our Offshore Engineering & Operations and Engineering, Training Services and Production Solutions contracts are reimbursed by customers, either on an actual cost basis or through a periodically revised schedule of rates. | During 2010, we managed cash before and after bid submissions in the following ways:<br>▪ conditional on the award of a major contract, we typically negotiate agreements to procure equipment and/or arrangements with key subcontractors, on back-to-back terms where possible<br>▪ expectations of wage inflation are factored into project costings for bid submissions and budgets<br>▪ the group maintains contingencies to cover unforeseen cost increases |
| Health, safety and environmental performance | A serious health, safety or environmental incident on any of our projects has the potential to cause significant commercial and reputational damage. | Our strong culture of health, safety and environmental (HSE) awareness is central to our operational and business activities, our system of business management and our delivery of quality and business excellence. As we enter new geographical markets, sometimes with new customers and partners, and assume responsibility for new infrastructure, it is particularly important that our focus on HSE is maintained. Our financial exposure to a significant HSE incident is generally mitigated through our commercial arrangements and insurance programme, although an incident may have a financial impact on our performance-based income. | During 2010, we appointed a Group Head of Environment to help raise standards across the Company and lead strategic environmental initiatives.<br>As of 31 December 2010, 95% of our facilities were accredited to ISO 14001 requirements for the environmental management systems they have in place.<br>Recorded incident data demonstrates our ongoing improvement in managing health and safety risks (see pages 60 and 61 for details). |

The list above does not purport to be exhaustive. There may be other risks and uncertainties, not presently known to us or that we currently deem to be less material, which could affect the performance of the business.

# Operating environment

In contrast to the decrease in global demand for oil & gas in 2009 as a result of the economic downturn, 2010 saw oil demand rise by approximately 3.2%[1], leading to a sustained recovery in oil prices which averaged around US$80[2] per barrel during the year.

While such short-term indicators are positive, it is the medium to long-term trends in global energy demand and supply that are most relevant in shaping our operating environment.

**Overview**

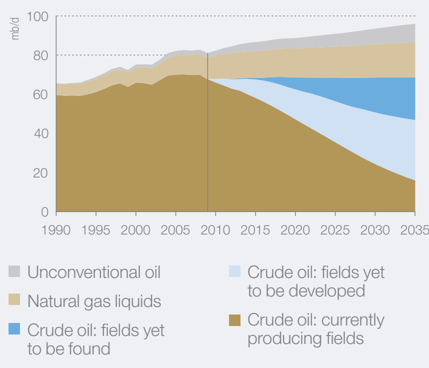
The International Energy Agency's (IEA) 'new policies' scenario[3] anticipates that global primary demand for energy will increase by approximately 36% from 2008 to 2035, or around 1.2% per annum. Growth is driven by non-OECD demand, particularly in China (which is now the world's largest energy consumer), India and the Middle East. Meanwhile, BP projects that world primary energy demand will rise by 39% over the next 20 years[4], equivalent to 1.7% per annum, driven by growth in the global population, gross domestic product (GDP) and energy intensity per capita.

What is common to both studies is the conviction that fossil fuels will remain the predominant means of satisfying global energy demand over the long-term. Under the IEA's more conservative projection (albeit based on different assumptions), demand for oil is expected to increase by 15%, an average of 0.5% per annum, to approximately 99 million barrels per day by 2035. Global demand for gas is expected to increase considerably faster at 1.4% per annum, reaching approximately 4,500 billion cubic metres per annum (bcma) by 2035 (equivalent to approximately 75 million barrels of oil per day).

The natural decline of existing oil & gas production is of even greater significance than the anticipated growth in demand for oil & gas. Cambridge Energy Research Associates undertook a study of 1,000 oilfields and, while only 40% of production came from fields in decline, the aggregate decline rate applied to all fields currently in production was estimated at 4.5% per annum[5]. Similarly, in 2009, the IEA estimated that less than one third of global gas production in 2030 will be met by existing production[6]. Large-scale investment in oil & gas projects is therefore required to both limit and compensate for decline rates (through enhanced oil recovery and investment in new developments to replace existing production) and satisfy the expected growth in demand.

1 International Energy Agency, 'Oil Market Report', 18 January 2011.
2 For example, Brent, a benchmark crude oil, averaged US$79.50 per barrel for 2010 (2009: US$61.67 per barrel).
3 In the IEA's World Energy Outlook 2010, the 'reference' scenario (which describes 'what would happen if, among other things, governments were to take no new initiatives bearing on the energy sector') is replaced by the 'current policies' scenario, but the 'mid-case' which is referred to here, is termed the 'new policies' scenario, which assumes that governments will implement the measures that they have already declared.
4 BP, 'Energy Outlook 2030', January 2011. BP's projection is "not a 'business as usual' extrapolation, or an attempt at modelling policy targets. Instead it is built 'to the best of our knowledge', reflecting our judgement of the likely path of global energy markets to 2030".
5 Cambridge Energy Research Associates, 'The Future of Global Oil Supply: Understanding the Building Blocks', 2009.
6 International Energy Agency, 'World Energy Outlook 2009', November 2009.

**World oil production by type in the New Policies Scenario**




Source: World Energy Outlook 2010, ©OECD/IEA, figure 3.19, page 122

### Engineering & Construction and Engineering & Construction Ventures

Driven by the operating environment described on page 36, investment in oil & gas infrastructure is expected to be more than US$15 trillion in the period 2010 to 2035[1]. Approximately US$6 trillion (in excess of US$200 billion per annum) of this expenditure is expected to be in our core Engineering & Construction markets of the CIS, Middle East and Africa (although our current addressable market is a subset of the total market). We had a successful year for new contract awards for Engineering & Construction in 2010, with an order intake of US$6 billion, however this represents a relatively small share of this large and growing market. Our strategy is to move incrementally into new geographies and expand our range of services so that our addressable market grows as a percentage of the overall global market. Consequently, we expect demand for the group's services that rely on capital expenditure (predominantly the Engineering & Construction business units) to remain strong over the long-term.

### Operational expenditures

Industry-wide operational expenditures are expected to increase. The average cost per barrel of developing, operating and maintaining new fields, which are increasingly in more remote or harsher environments, is likely to rise over time. The cost of maintaining and producing mature fields, which require greater 'healthcare' as they deplete, is also likely to increase. Increasing operational expenditures should benefit a number of our businesses; we look at the operating environment for each in more detail:

### Offshore Engineering & Operations

Around 90% of Offshore Engineering & Operations' revenues are generated from activities in the UKCS. The UKCS market is relatively concentrated and during the economic downturn many customers took the opportunity to retender contracts. We succeeded in retaining and extending many contracts where we were the incumbent contractor and have grown our market share by securing a number of new contracts (see page 43). Internationally, we have a small proportion of the available market and would like to grow our market share as we extend our geographic reach. As a result of securing new contracts and extensions, backlog has increased from US$1.6 billion to US$2.4 billion over the course of 2010.

### Engineering Services

After a modest increase in 2010, capital expenditure on exploration and production spending is expected to increase more substantially in 2011[2], which should see an increase in conceptual studies and FEED studies. This will hopefully lead to an increase in opportunities for external work for our Engineering Services business.

### Training Services

We believe that the long-term drivers for this business remain robust:

- the industry will be required to recruit and train many new skilled engineers and technicians to replace those set to retire over the next few years
- there is an increasing focus on local content requirements, particularly as sovereign state resource holders try to extract more economic value from oil & gas developments. In this regard, Training Services supports not only our customers, but also the rest the group
- following events in the Gulf of Mexico in 2010, there is likely to be an increasing focus in some markets on critical incident management and emergency response training, as well as on quality assurance and technical training

We estimate our current market share to be around 2% of the global market for the training services that we provide. The above drivers should all increase the size of our potential market over the medium to long-term and we have ambitions to grow our relatively small market share in what is a highly fragmented market.

### Energy Developments and Production Solutions

We believe that a strategic opportunity exists for the group to support some of the world's major oil & gas resource holders.

Resource holders need to develop new opportunities and invest increasing levels of time, effort and capital in operating and maintaining their existing production. As many resource holders are well-funded, or have alternative sources of capital, and there is often political sensitivity around transferring ownership of reserves, we believe that resource holders' key requirement is capability.

Drawing upon the extensive capabilities of the wider group, which include engineering, operations, training, well management and specialist petro-technical consulting businesses, we are seeking opportunities to provide a fully integrated service for resource holders. We are happy to work under a range of flexible commercial models that are aligned to specific customer requirements. Such projects may cover upstream developments, both greenfield and brownfield, and related energy infrastructure investments, and can include the provision of capital.

The recent awards to Petrofac of the Ticleni contract in Romania (see page 44 for more detail) and the Berantai project in Malaysia (see page 48) are interesting examples of what we believe are very exciting opportunities for the group.

### In summary

We had an exceptional year in 2010, securing a number of new contracts across the group. As a result, our backlog finished the year at a record level of US$11.7 billion (2009: US$8.1 billion). We have continued that success as we move into 2011, having secured a contract in Algeria in January 2011 for US$1.2 billion and a risk service contract for the Berantai field in Malaysia. Overall, we have outstanding visibility of revenues for 2011 and beyond.

Notwithstanding that we still face significant competition in many of our established markets, the key drivers of capital and operational expenditures and our geographic focus should ensure that our medium to long-term prospects remain strong.

1 International Energy Agency, 'World Energy Outlook 2010', November 2010.
2 By around 16%, according to JP Morgan Cazenove, 'Global E&P Spending Analysis', 8 February 2011.

# Review of operations

Our operations are organised into seven business units, which report under four segments:

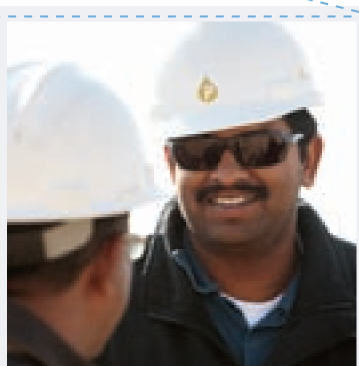
| Business unit | | Reporting segment |
|---|---|---|
| Engineering & Construction<br>Engineering & Construction Ventures | > | Engineering & Construction |
| Offshore Engineering & Operations | > | Offshore Engineering & Operations |
| Engineering Services<br>Training Services<br>Production Solutions | > | Engineering, Training Services and Production Solutions |
| Energy Developments | > | Energy Developments |

We present below an update on each of the group's reporting segments:

| | Revenue | | Operating profit[1] | | Net profit[2] | | EBITDA | |
|---|---|---|---|---|---|---|---|---|
| **US$ millions** | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| Engineering & Construction | **3,253.9** | 2,509.0 | **438.9** | 312.4 | **373.0** | 265.1 | **474.3** | 337.3 |
| Offshore Engineering & Operations | **721.9** | 626.7 | **24.5** | 17.8 | **17.2** | 12.8 | **27.3** | 19.7 |
| Engineering, Training Services and Production Solutions | **355.3** | 349.7 | **26.6** | 34.5 | **27.6** | 32.4 | **34.7** | 42.6 |
| Energy Developments | **188.2** | 248.7 | **191.2** | 77.4 | **156.4** | 46.2 | **241.0** | 160.9 |
| Corporate, consolidation and elimination | **(165.1)** | (78.7) | **(17.7)** | (10.1) | **(16.4)** | (2.9) | **(17.9)** | (10.8) |
| Group | **4,354.2** | 3,655.4 | **663.5** | 432.0 | **557.8** | 353.6 | **759.4** | 549.7 |

| | Revenue growth | | Operating margin | | Net margin | | EBITDA margin | |
|---|---|---|---|---|---|---|---|---|
| **Growth/margin analysis %** | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| Engineering & Construction | **29.7** | 25.9 | **13.5** | 12.5 | **11.5** | 10.6 | **14.6** | 13.4 |
| Offshore Engineering & Operations | **15.2** | (19.3) | **3.4** | 2.8 | **2.4** | 2.0 | **3.8** | 3.1 |
| Engineering, Training Services and Production Solutions | **1.6** | (31.5) | **7.5** | 9.9 | **7.8** | 9.3 | **9.8** | 12.2 |
| Energy Developments | **(24.3)** | 62.1 | **101.6** | 31.1 | **83.1** | 18.6 | **128.0** | 64.7 |
| Group | **19.1** | 9.8 | **15.2** | 11.8 | **12.8** | 9.7 | **17.4** | 15.0 |

1 Profit from operations before tax and finance costs.
2 Profit for the year attributable to Petrofac Limited shareholders.



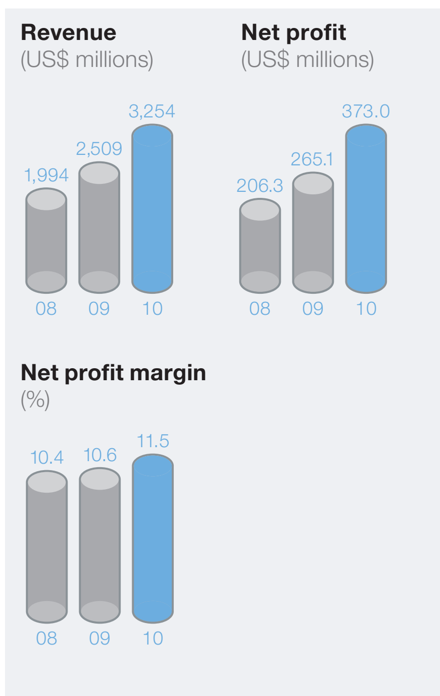
Review of operations
continued

# Engineering & Construction

## The Engineering & Construction reporting segment includes the group's Sharjah-based Engineering & Construction business unit and Engineering & Construction Ventures, which has been established to target new markets, such as Abu Dhabi, Saudi Arabia, and Turkmenistan.

Engineering & Construction generally undertakes engineering, procurement and construction projects on a lump-sum basis, with a typical duration of between two to four years, and is focused on markets in the Middle East, Africa, Asia Pacific and the Commonwealth of Independent States, particularly the Caspian region.

Order intake in 2010 exceeded US$6.0 billion. This includes our largest ever award, of US$3.4 billion, for the second phase of our contract with Turkmengas on the South Yoloten project in Turkmenistan, as well as contracts in Qatar, Kuwait and Malaysia.




We have delivered good progress on our current portfolio of contracts including the handover or substantial completion of the following:

- in Syria, we completed and commissioned the Ebla gas plant for PetroCanada in April 2010, two months ahead of schedule, earning an early completion bonus. We have also completed and commissioned the Jihar gas plant for the Hayan Petroleum Company (a joint venture between the state-owned Syrian Petroleum Company and INA Industrija Nafte d.d.-Naftaplin of Croatia)
- in Oman, we completed the Harweel cluster development project for the Petroleum Development Oman (PDO), achieving the introduction of hydrocarbons in January 2011
- in Kuwait, we substantially completed the Mina Al-Ahmadi refinery pipelines project for Kuwait Oil Company (KOC), which was awarded in November 2008
- in Algeria, we made good progress on the In Salah gas compression project for Sonatrach, BP and Statoil. Two of the three fields are now in operation and the compression facility and power generation on the Krechbah field were substantially completed by the end of the year

We were awarded the following principal contracts during the year, on which initial progress has been in line with our expectations:

### Gas sweetening facilities, Qatar
In March 2010, we were successful in securing an award for gas sweetening facilities in Qatar from Qatar Petroleum. The contract, for more than US$600 million, includes the engineering, procurement, installation and commissioning of gas sweetening facilities in Qatar's Messaieed and Dukhan industrial districts. The project includes a sulphur recovery upgrade in Messaieed and an acid gas recovery plant in Dukhan. Work on the projects is due for completion within 38 months.

### Pipelines from Mina Al-Ahmadi to power stations, Kuwait
In July 2010, we were awarded a US$400 million contract by Kuwait Oil Company for EPC services for the installation of fuel gas and gas oil pipelines from Mina Al-Ahmadi to the Azzour and Shuaiba Power Stations in Kuwait. The project follows on from the pipelines contract referred to above and is expected to last approximately two years.

### Water injection project, Kuwait
In August 2010, we were awarded a further EPC project by KOC for US$430 million for effluent water and sea water injection facilities. The project involves the installation of a new central injection pumping facility and modifications to three existing gathering centres and seawater treatment plant. When completed, both effluent water and sea water will be fed into a central injection pumping facility and injected into the wells with the objective of increasing oil recovery from the Raudhatain and Sabriyah fields. Completion is estimated within 36 months.

### SEPAT offshore early production system, Malaysia
In December 2010, we secured an award for the engineering, procurement, construction, installation and commissioning of an offshore early production system on the east coast of Peninsular Malaysia. The contract, worth approximately US$280 million, was awarded by Petronas Carigali Sdn Bhd. First oil is expected by the end of 2011 and the project is estimated to be completed by April 2012.

### South Yoloten development, Turkmenistan
In December 2010, we commenced the second phase of the South Yoloten contract, worth US$3.4 billion, for Turkmengas, the state-owned national gas company of Turkmenistan. This followed the completion of the first phase of the project, which involved a front end engineering and design (FEED) study and early engineering work for the gas processing development.

# Commencing the second stage of engineering work of the South Yoloten, gas field development, Turkmenistan

The second phase of the contract is scheduled to last 31.5 months, during which time we will provide engineering, procurement and commissioning work on a lump-sum basis for a 10 bcma gas processing plant along with the infrastructure and pipelines for the entire 20 bcma development. The structuring of this contract in two phases was important for risk mitigation and the work completed in phase one gives us a higher level of confidence that we can execute the project in accordance with our high standards.

**Results**

High activity levels, due principally to projects won in 2009 and late 2008, resulted in Engineering & Construction growing revenues strongly by 29.7% to US$3,253.9 million (2009: US$2,509.0 million). The main contributors to revenue were: the El Merk central processing facility in Algeria; the Asab project in Abu Dhabi; the Kauther gas compression project in Oman; the Mina Al-Ahmadi refinery pipelines project in Kuwait, and the Karan utilities package in Saudi Arabia.

Net profit increased by 40.7% to US$373.0 million (2009: US$265.1 million), representing a net margin of 11.5% (2009: 10.6%). The increase in net margin is due to continued strong operational performance, including the delivery of a number of projects during the year, and first time profit recognition on a number of projects. A variation order on a project agreed in the first half of 2010 was not reflected in the interim results, leading to an understatement of revenue by US$35 million and net profit by US$32 million. These amounts have been recognised in the second half of 2010 and therefore there is no overall financial impact on the reported results for the year ended 31 December 2010.

Over the year, Engineering & Construction grew its headcount from 4,200 to 5,400, in response to the record intake in 2009 and in anticipation of our largest ever award, in Turkmenistan. In addition, headcount in our engineering offices in Mumbai and Chennai, which principally support our Engineering & Construction activities – although they are reported within our Engineering, Training Services and Production Solutions segment – also grew strongly. At 31 December 2010, we had approximately 1,600 employees in our Indian offices (2009: 1,300).

At 31 December, the Engineering & Construction backlog stood at a record US$9.0 billion (2009: US$6.2 billion), reflecting the high level of order intake during the year.

# Offshore Engineering & Operations

Offshore Engineering & Operations provides engineering and construction services at all stages of greenfield and brownfield offshore projects. In addition, through the provision of operations management services, we deliver production and maintenance support and extend field life.

Offshore Engineering & Operations' activities are primarily in the UKCS and are predominantly provided on a reimbursable basis, but often with incentive income linked to the successful delivery of performance targets. Many of our operations contracts are long-term (typically three to five years) and in the case of the provision of Duty Holder services[1] are often open-ended.

Activity levels in Offshore Engineering & Operations improved in 2010 due to the commencement of work on major contracts awarded in 2009, good bidding success and a general improvement in market conditions. Our strong record of operational performance, company-wide capability and established presence in core markets helped us achieve an order intake of US$1.6 billion, taking backlog to record levels of US$2.4 billion.

1 Contracts where the group takes full responsibility for managing a customer's asset and is responsible for the safety case of the asset, reporting to the UK Department of Energy and Climate Change.

Providing Duty Holder services to Sajaa Gas Plant, Sharjah

The key awards secured were:

### Sharjah Government Duty Holder contract, UAE

In October 2010, we secured a Duty Holder contract to provide a full range of facilities management services to the Government of Sharjah on the Sajaa Gas Plant and related assets. This contract, which furthers our aim to grow the Offshore Engineering & Operations business internationally, will run for five years and is worth more than US$250 million.

### Laggan Tormore EPC contract, UK

In October 2010, we won an engineering, procurement, supply, construction, commissioning and start-up contract with Total for the development of a gas processing plant on the Shetland Islands. Offshore Engineering & Operations will develop this facility, supported by Engineering & Construction. This is the first time that we have secured a predominantly lump-sum EPC contract in the UK. The contract is worth more than £500 million, with first gas expected in Q2 2014.

### Maersk Oil engineering services contract, UK

In November 2010, we were awarded a contract worth £40 million over three years for the provision of engineering services to the UKCS assets of Maersk Oil. The contract includes three one-year options for extension, and broadens Petrofac's scope of services for these assets, building upon the offshore operations and support services we have been providing since 2000.

In addition to securing these new awards, we have been successful in extending a number of our operations and maintenance contracts with both oil majors and independents. These include a five-year agreement with BHP Billiton to provide operations and maintenance personnel support for the Liverpool Bay Development in the Irish Sea and a five-year extension to our operations and maintenance support contract with CNR International in the North Sea.

From October 2010, the technical services agreement with the Government of Dubai was reported through the Offshore Engineering & Operations reporting segment (having previously been reported through Engineering, Training Services and Production Solutions). The transition from having operational control over these assets to the new technical services agreement was effected smoothly.

### Acquisitions

We successfully completed two small acquisitions in 2010 which broaden our capability: Scotvalve Services Limited, which provides servicing and repair for oilfield pressure control equipment, and Stephen Gillespie Consultants Limited, which designs and manufactures metering systems (see note 10 to the financial statements).

### Results

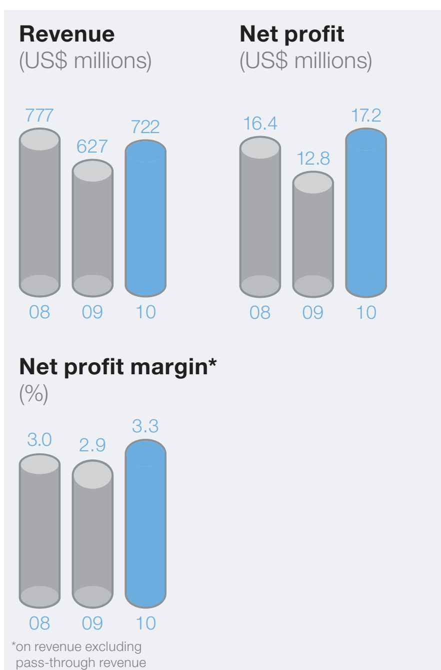
Reported revenue for the year increased by 15.2% to US$721.9 million (2009: US$626.7 million) and revenue excluding 'pass-through' revenue[1] increased by 20.6% to US$526.4 million (2009: US$436.4 million), reflecting the commencement of major contracts secured in the second half of 2009 and a general improvement in the operating environment. Approximately 90% of Offshore Engineering & Operations' revenue is generated in the UKCS, with these revenues generally denominated in Sterling. The average US Dollar to Sterling exchange rate for 2010 was broadly similar to the rate for 2009.

Net profit increased by 34.5% to US$17.2 million (2009: US$12.8 million), again reflecting increased activity levels. Net margin on revenue excluding pass-through revenue increased to 3.3%, compared to 2.9% in 2009, driven by new higher margin contracts.

Over the year, Offshore Engineering & Operations grew its headcount from 4,100 to 4,400, mostly attributable to the staff added on new contracts, including Laggan Tormore and the Sharjah Government Duty Holder contract.

Backlog for Offshore Engineering & Operations increased to a record high of US$2.4 billion at 31 December 2010 (2009: US$1.6 billion). This includes approximately half of the backlog booked in relation to the Total EPC contract awarded in October 2010. The remainder of the backlog has been booked by Engineering & Construction, as it will support Offshore Engineering & Operations on the project.

1 Pass-through revenue refers to the revenue recognised from low or zero margin third-party procurement services provided to customers.



# Engineering, Training Services and Production Solutions

## The Engineering Services, Training Services and Production Solutions business units are reported together in this segment.

Engineering Services provides early stage engineering studies, including conceptual studies and FEED studies, primarily on a reimbursable basis. Engineering Services has two offices in India – in Mumbai and Chennai – which primarily support Engineering & Construction and a UK office in Woking which is more externally focused. Activity levels were significantly higher at our Indian offices in 2010, reflecting Engineering & Construction's increased demand for the unit's services, resulting from the reporting segment's record backlog entering into 2010 and its contract wins throughout the year. At our Woking office activity levels were marginally lower. Utilisation rates rose across all three offices throughout 2010.

Training Services provides competence-led training services, consultancy and managed solutions which are designed to increase competence and minimise risk. Services are provided primarily on a reimbursable basis. Delegate numbers were slightly higher than in 2009, and we saw strong growth from international markets, including our facilities at Sakhalin Island, Russia, and Baku, Azerbaijan. In October 2010, our training centre located near Homs in Syria was opened at a ceremony attended by the Syrian Prime Minister. The facility, which Petrofac will operate for five years, will deliver operations and maintenance training for Syrian graduates joining the oil & gas industry.

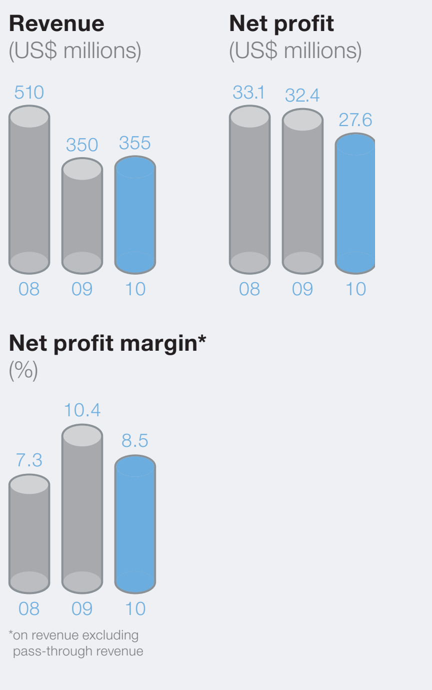
Training Services remains focused on strategic business development opportunities, both in the UK and internationally. Demand for our Training Services business is driven by a number of factors, including the 'nationalisation' of government workforces, the ageing of the industry's personnel and the potential increase in industry regulation in the wake of the Gulf of Mexico incident; these provide us with interesting medium to long-term opportunities.

Production Solutions provides customers with a wide range of services to help improve production, profitability, operational efficiency, asset integrity and the recovery of their reserves. In addition to providing these specialist services on a stand-alone basis, we are increasingly offering customers these services packaged together where we are remunerated on a tariff or quasi-equity basis. We were awarded our first such 'production enhancement' contract by Petrom in early July 2010. Under the terms of the 15-year contract, which includes an option for extension by a further ten years, Petrofac will provide production enhancement services to Petrom as the concession holder for the Ticleni oilfield and its eight satellite fields in Romania. We will be paid a tariff per barrel of oil produced, including an enhanced tariff for incremental production. Petrofac successfully completed the transition to assume full operational responsibility for these fields in November 2010: average oil production volumes from the first two months of operation were around 2.3% above baseline production.

Continued demand for our Training services

In November 2010, Production Solutions entered into a strategic alliance with Seven Energy International Limited ('Seven Energy'), a Nigerian production and development company. Under the terms of the agreement Petrofac agreed to invest US$100 million to acquire a 15% interest in Seven Energy (12.6% on a fully diluted basis) and will assist Seven Energy with the development of its production, processing and transportation assets. Seven Energy has also issued warrants which, subject to the satisfaction of certain performance conditions and milestones in relation to project execution, will enable us to invest up to a further US$52 million, and take our interest to 19.2% on a fully diluted basis. Petrofac is providing experienced personnel to Seven Energy and is represented on its Board and management committees. The opportunity to co-invest and co-develop with Seven Energy, while deploying some of our own people, will give us the platform to establish a local presence in Nigeria, a high growth market where we have been seeking commercial opportunities for some years.

In October 2010, following a successful three and a half years of our service operator contract for Dubai Petroleum's offshore oil & gas assets, we successfully completed the transition to a technical services agreement with the Government of Dubai. The technical services agreement will be reported through Offshore Engineering & Operations.



Dubai Petroleum

### Acquisitions

Within Engineering Services, the acquisition of TNEI represents the first step in positioning Petrofac in the renewable energy sector. TNEI was acquired in June 2010 for a total consideration of £6.1 million (see note 10 to the financial statements). TNEI is a specialist consultancy providing services in the areas of power transmission and distribution, particularly in relation to offshore wind projects, planning and environmental consent and energy management. TNEI has 50 staff in Newcastle and Manchester. The acquisition further broadens Petrofac's technical consulting capacity.

### Results

Reported revenue for the year was slightly higher at US$355.3 million (2009: US$349.7 million) as was revenue excluding 'pass-through' revenue at US$322.8 million (2009: US$309.7 million), with an increase in revenues in both Engineering Services and Training Services being partially offset by lower revenues in Production Solutions as a consequence of the transition of our role on the Dubai Petroleum contract from service operator to a technical services agreement (and now accounted for in Offshore Engineering & Operations).

Net profit was 14.8% lower at US$27.6 million (2009: US$32.4 million), principally reflecting the change in scope on the Dubai Petroleum contract. This was also the primary driver for net margin on revenue excluding pass-through revenue falling to 8.5% (2009: 10.4%).

At 31 December 2010, headcount – including long-term contractors – was higher at 3,400 (2009: 2,900). The addition of approximately 900 Romanian workers on the Ticleni oilfield more than offset the reduction in headcount that followed the transfer of Dubai Petroleum staff to the Government of Dubai. We also continued to grow our Mumbai and Chennai offices, which are reported through Engineering Services but predominantly support the businesses in our Engineering & Construction reporting segment. We have recently decided to open a third Indian office in Delhi, and expect to accomplish this during 2011.

Backlog for the Engineering, Training Services and Production Solutions reporting segment was unchanged at year-end, at US$0.3 billion (2009: US$0.3 billion). The main factors affecting backlog related to Production Solutions, which saw order intake – primarily arising from the Ticleni contract – offset by the change in scope on the Dubai Petroleum contract.

Review of operations
continued

# Energy Developments

Where we can leverage our service capabilities to realise value, mitigate risks and reduce costs, Energy Developments provides a fully integrated service for resource holders under flexible commercial models that are aligned to their requirements. Projects cover upstream developments, both greenfield and brownfield, and related energy infrastructure projects, and can include the provision of capital.

In the first demonstration of our 'build and harvest' strategy, we completed the demerger of Energy Developments' UKCS assets, including its investments in the Don fields, in April 2010. These assets were demerged to create EnQuest PLC, an independent company which subsequently listed on the London and Stockholm stock exchanges. Our investment in the Don project generated a capital gain of US$124.9 million and an internal rate of return from inception to demerger of approximately 35%. We believe this transaction demonstrates the value of our 'build and harvest' strategy.

During the year, good progress was made on Energy Developments' portfolio of operational assets (Cendor, Ohanet, Chergui and the Kyrgyz Petroleum Company (KPC) refinery), as explored below:

**Cendor PM304, Malaysia**
Energy Developments operates the Cendor field, in Block PM304, offshore Peninsular Malaysia, in which it holds a 30% interest. This interest was acquired in 2004 and is held by way of a production sharing contract (PSC). Energy Developments' partners on this field are PETRONAS, Kuwait Foreign Petroleum Exploration Company (KUFPEC) and PetroVietnam, which hold interests of 30%, 25% and 15% respectively.

The Cendor field had another year of good performance, producing an average of 13,300 bpd of oil (2009: 14,400 bpd) and achieving production uptime of over 99%. Production is now in decline as a result of the natural decrease in field pressure. Energy Developments received approval for the Field Development Programme (FDP) for the second phase of development of Block PM304 in November 2010. This second phase will involve the replacement of the existing Mobile Offshore Production Unit (MOPU) and Floating Storage and Offloading (FSO) vessel with a Floating Production, Storage and Offloading (FPSO) vessel and fixed wellhead structures, designed to increase production capacity to 35,000 bopd. Preparations for this second phase are progressing well with the aim of beginning work in the first half of 2011.

**Ohanet, Algeria**
Energy Developments, in a joint venture with BHP Billiton (as joint venture operator), Japan Ohanet Oil & Gas Co and Woodside Energy (Algeria), has invested more than US$100 million for a 10% share in a RSC with Sonatrach, Algeria's national oil company. Through Engineering & Construction, we undertook the EPC contract for the gas processing facilities in joint venture with ABB Lummus and were responsible for part of the on-site commissioning works. As part of the RSC, the joint venture contractors are reimbursed for development costs and their share of the project's operating costs. The joint venture contractors' return for undertaking this investment is earned by way of remuneration equivalent to a percentage of the eligible development costs and our entitlement is paid from the monthly liquids production; hence any changes in production will vary the number of days over which the entitlement is earned.

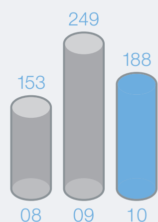
Overall production was slightly lower than in 2009, averaging approximately 113,000 bpd of oil equivalent (2009: 123,100 bpd of oil equivalent). On average, we earned our share of the monthly liquids production by the 11th day of the month (2009: 15th), reflecting higher average oil & gas prices, partly offset by slightly lower production rates. The RSC contract is due to expire at the end of October 2011; eight years from first gas, over which time we expect to have earned our defined return.

**Chergui field, Tunisia**
In Tunisia, Energy Developments has a 45% operating interest in the Chergui gas plant. This interest was obtained in 2007 from Entreprise Tunisienne d'Activités Pétrolières (ETAP), the Tunisian national oil company, which holds the remaining 55% interest. Energy Developments' interest is held through a Concession. The commercial export of gas commenced in August 2008. Produced gas is sold to the national gas company, Société Tunisienne de Lélectricité et du Gaz (STEG), under a gas pricing formula fixed by existing law, in which the price of gas is linked to free-on-board Mediterranean (FOB Med) fuel oil prices.

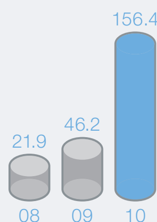
The Chergui gas plant produced an average of 27.8 million standard cubic feet per day (mmscfd) of gas during the year (2009: 26.5 mmscfd), above the original nameplate design capacity of 20 mmscfd. A third production well was tied into the plant in early July 2010 to boost the production rate and increase gas recovery: production in December 2010 was the highest recorded rate since the start-up of the gas plant in June 2008. The development programme for 2011 includes the commitment to drill two to three wells to increase reserves and to explore the production of oil, as well as gas, from the field. Following recent civil unrest in Tunisia, we have had some short unplanned shut-ins of production, but generally the plant is operating normally. We continue to keep the situation under review.

# Chergui gas plant produced an average of 27.8 million standard cubic feet per day in 2010

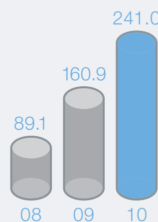
**Revenue**
(US$ millions)




**Net profit**
(US$ millions)




**EBITDA**
(US$ millions)




## KPC refinery, Kyrgyzstan

Energy Developments owns a 50% share in the Kyrgyz Petroleum Company (KPC) which is engaged in the refining of crude oil and the marketing of oil products from the 10,000 bpd capacity KPC refinery. KPC is jointly owned by Petrofac and Kyrgyzneftegaz, the state-owned oil & gas company in the Kyrgyz Republic. Petrofac has managed KPC's facilities and operations since 1998.

During 2010, the refinery performed in line with expectations, producing an average of approximately 1,700 bpd (2009: 2,000 bpd), principally of gasoline, diesel and fuel oil. The decrease in throughput was primarily due to civil unrest in the country, which shut down operations and halted processing at the refinery in April and June 2010. On both occasions the demobilisation of expatriate and local staff was deemed necessary.

## FPF1 Floating Production Facility, undeployed

In July 2009, Energy Developments acquired a floating production facility, AH001 (subsequently renamed the FPF1), from Hess and Endeavour Energy UK. The FPF1 had been deployed on the Hess-operated Ivanhoe and Rob Roy Fields, in the UK North Sea, from 1989, with the Renee and Rubie Fields produced over it since 1999. The vessel has a processing capacity of 45,000 bpd of oil and 56 mmscfd of gas with water injection capability of 90,000 bpd and water treatment of 40,000 bpd.

The vessel remains quayside at the McNulty offshore facility in Newcastle-upon-Tyne, while options for its redeployment on fields, including those where Energy Developments has or can take an interest, are considered. Several options for deployment, including in the UK North Sea, have been identified and are being pursued with conceptual engineering and proposal preparation work. We expect that a redeployment contract for the vessel will be secured in 2011. We are currently completing general repair and upgrade work on the vessel, which will be followed by planned specific dry-dock work to satisfy external verification requirements to obtain a class certificate. This will enable the FPF1 continued operation in the harsh environment of the UK North Sea for ten years, without the need for a special survey.

# Energy Developments continued

### Gateway Storage Company Limited, UK

In December 2010, Energy Developments acquired a 20% interest in Gateway Storage Company Limited (Gateway), to progress and develop the Gateway Gas Storage project in the East Irish Sea. This project would add nearly 30% to the current gas storage capacity in the UK market, and has secured the first gas storage licence from the UK Department of Energy & Climate Change in February 2010. Petrofac joined Gateway as the technical project operator and is represented on Gateway's board.

### Berantai field development and East Fortune FPSO, Malaysia

In January 2011, Energy Developments signed a RSC to lead the development of the Berantai field, offshore Peninsular Malaysia, for PETRONAS, Malaysia's national oil company. Petrofac has a 50% interest in the RSC, alongside our Malaysian partners Kencana Energy Sdn Bhd and Sapura Energy Ventures Sdn Bhd, both of which hold a 25% interest (together known as the 'Berantai partners'). The Berantai partners will develop the field and will subsequently operate the field for a period of seven years after first gas production.

The capital budget for the full field development, excluding delivery of the FPSO, is approximately US$800 million, of which Petrofac's share is 50%. Under the terms of the RSC, the Berantai partners are expected to receive a rate of return linked to their performance against an agreed incentive structure, including project costs, timing to first gas and sustained gas delivery measured six months after project completion, with an ongoing incentive structure based on operational uptime.

### Acquisitions

Petrofac completed the acquisition of $CO_2$DeepStore in April 2010, a UK-based $CO_2$ storage company (see note 10 to the financial statements). The combination of $CO_2$DeepStore and Petrofac establishes a leading development capability for $CO_2$ storage projects, providing a complete service for power generators and other $CO_2$ emitters.

In October 2010, $CO_2$DeepStore signed an agreement with Shell U.K. Limited (Shell) for the re-development of the Goldeneye gas field in the North Sea as a potential $CO_2$ storage facility. The agreement will see $CO_2$DeepStore and Shell work together to develop the potential $CO_2$ storage solution for the ScottishPower Carbon Capture and Storage (CCS) project. Work on the initial design phase for the project is due to complete in the first half of 2011 and, subject to satisfactory contract negotiations, achieve contract award later in the year.

| Asset name | Country | Asset type | Investment commitment | Customer | Date of investment | Partners | Partner interests | Licence Operator |
|---|---|---|---|---|---|---|---|---|
| **Berantai** | Malaysia | Oil & gas field | Risk service contract | PETRONAS | January 2011 | Petrofac<br>Kencana<br>Sapura | 50%<br>25%<br>25% | Petrofac (Energy Developments)<br>Kencana<br>Sapura |
| **Cendor** | Malaysia | Oil field | Production sharing contract | PETRONAS | May 2004 | Petrofac<br>PETRONAS<br>KUFPEC<br>PetroVietnam | 30%<br>30%<br>25%<br>15% | Petrofac (Energy Developments) |
| **Chergui** | Tunisia | Gas field | Concession | ETAP | February 2007 | ETAP<br>Petrofac | 55%<br>45% | ETAP |
| **FPF1** | Vessel currently located in the United Kingdom | Floating production facility | Owner of infrastructure | N/A | July 2009 | None | 100% owned by Petrofac | N/A |
| **Gateway** | United Kingdom | Gas storage facility | Equity stake in a company developing the project | N/A | December 2010 | Various | 20% owned by Petrofac | Petrofac (Energy Developments) |
| **KPC refinery** | Kyrgyzstan | Refinery | Equity stake in a company which owns the infrastructure | Kyrgyzneftgaz | January 2004 | Petrofac<br>Kyrgyzneftgaz | 50%<br>50% | Petrofac (Energy Developments) |
| **Ohanet** | Algeria | Gas field | Risk service contract | Sonatrach | July 2000 | BHP Billiton<br>Japan Ohanet Oil & Gas<br>Woodside Energy<br>Petrofac | 45%<br>30%<br>15%<br>10% | BHP Billiton |

## Results

Energy Developments' revenue was lower at US$188.2 million in 2010 (2009: US$248.7 million), primarily due to the disposal of the Don assets following the April 2010 demerger. On a like-for-like basis (excluding the contribution of the Don assets), Energy Developments' revenue was marginally higher at US$172.8 million this year (2009: US$170.4 million).

Including the gain on the EnQuest demerger, net profit for Energy Developments rose by 238% to US$156.4 million (2009: US$46.2 million). Excluding this gain, despite the higher average oil price in 2010[1] and notwithstanding the non-recurring NT/P68 write-off of US$3.7 million in the prior year, the loss of contribution from the Don assets as well as lower production on Cendor meant that profit was lower at US$31.5 million (2009: US$46.2 million). On a like-for-like basis (excluding the contribution of the Don assets and the gain on the EnQuest demerger), trading net profit for Energy Developments was US$29.4 million in 2010 (2009: US$33.5 million).

At 31 December 2010, headcount had grown to 600 (2009: 500).

An analysis of Energy Developments' oil & gas reserve entitlements is presented on page 159.

1 For example, Brent, a benchmark crude oil, averaged US$79.50 per barrel for 2010 (2009: US$61.67 per barrel).

# Senior management team

**1 Robin Pinchbeck**
Group Director of Strategy and Corporate Development
Robin joined Petrofac in 2002. After 23 years with BP, he moved to the oil services sector and from 1995 to 1998 was managing director of Atlantic Power & Gas, a leading North Sea operations services provider and pioneer of the contractor 'Duty Holder' model. Atlantic Power & Gas was sold in 1998 to Petroleum Geo-Services ASA, which was subsequently purchased by Petrofac in 2002. Robin established Petrofac's facilities management business now known as Offshore Engineering & Operations. Robin is a graduate of Imperial College, London and Stanford University, California. Age 58.

**2 Richard Milne**
Group Director of Legal and Commercial Affairs
Richard joined Petrofac in 2004 with overall responsibility for advising on the legal and commercial aspects of the group's activities. Richard was heavily involved in Petrofac's successful admission to listing on The London Stock Exchange in 2005 and in developing the group's governance and compliance framework. As a member of the group's senior management team, Richard participates in the group's risk review process and advises on corporate matters as well as on all commercially significant issues affecting the group. Prior to joining Petrofac, Richard spent some 15 years in corporate finance after working in the insurance brokerage industry. Richard is a graduate of Oxford University and qualified as a solicitor. Age 55.

**3 Marwan Chedid**
Managing Director, Engineering & Construction Ventures
Marwan joined Petrofac's Engineering & Construction business as a project manager when the business was first established in Sharjah in 1992 and was subsequently promoted to regional director at the same time as becoming a member of the Engineering & Construction board. In 2007, Marwan was appointed chief operating officer of the Engineering & Construction International business with day-to-day responsibility for the successful delivery of overall operations. In January 2009, he was appointed managing director of Engineering & Construction Ventures. Marwan previously worked for a major civil and mechanical construction business based in the Gulf and the Middle East for 12 years and has more than 28 years' experience in the oil & gas sector. He holds a degree in Mechanical Engineering from the American University of Beirut. Age 50.

**4 Bill Dunnett**
Managing Director, Offshore Engineering & Operations
Bill has over 26 years' experience in the oil & gas industry and now leads the Offshore Engineering & Operations business. Bill joined Petrofac Energy Developments in 2007 with responsibility for asset development and production, which included leading the project management and operation of the greater Don Area Fields in the United Kingdom Continental Shelf, and the Chergui Field Development in Tunisia. Prior to joining Petrofac, Bill spent eight years at Halliburton and its subsidiary KBR, as a senior vice president and corporate officer and his responsibilities included membership of the KBR Executive Leadership Team, Global Operations and Maintenance. Bill spent his earlier career with Mobil North Sea and Shell. He is a chartered engineer and graduated with a first in Engineering from Heriot Watt University. Age 48.

**5 Gordon East**
Managing Director, Production Solutions
Gordon joined Petrofac in 2006 as managing director of Petrofac Facilities Management (now Offshore Engineering & Operations). He now leads the Production Solutions business which works with customers to increase production and improve reservoir recovery, covering specialist consultancy, technology applications and large scale production enhancement projects. Prior to joining Petrofac, Gordon spent more than 20 years with ConocoPhillips in various leadership and management roles throughout the upstream business worldwide. He has also held non-executive roles in the DTI and Cabinet Office. Gordon has an MA in Engineering from Cambridge University and an MSc in Petroleum Engineering from Imperial College London. Age 47.

**6 Paul Groves**
Managing Director, Training Services
Paul joined Petrofac in June 2009. As managing director of Petrofac's Training Services business, Paul has overall responsibility for developing and running the group's global training and consultancy activities. Paul previously worked with Shell from 2001, where he held a number of business development-led roles within the organisation. A Chartered Engineer and Scientist, Paul started his career as a lecturer of physics at Oxford University before moving into a number of management and development roles in organisations such as Alcan Aluminum Limited and British Gas/BG PLC. Age 50.

**7 Rob Jewkes**
Managing Director, Energy Developments
Rob joined Petrofac in 2004 with the objective of building Europe-based engineering services business at our Woking office, to complement the existing Engineering & Construction business in Sharjah. In 2009, Rob was appointed managing director of Petrofac Energy Developments. He has more than 30 years experience in the oil & gas industry, and prior to joining Petrofac, Rob served as chief executive officer of Clough Engineering, the main operating company of the Australian engineering group, Clough Limited. Rob holds a degree in Civil Engineering from the University of Western Australia. Age 55.

**8 Subramanian Sarma**
Managing Director, Engineering & Construction
Subramanian joined Petrofac's Engineering & Construction business as a project manager in 1997 and has held various positions since then. In 2007, he was promoted to the position of executive vice president, projects & deputy chief operating officer of Petrofac International, with responsibility for the delivery of EPC projects in the Middle East, North Africa and Caspian regions. Subramanian now heads Petrofac's Engineering & Construction business with overall responsibility for the current operation and its continued growth. Prior to joining Petrofac, Subramanian worked for Kvaerner and Jacobs in India and Oman and has more than 30 years' experience in the oil & gas industry. He holds an MSc in Chemical Engineering from the Indian Institute of Technology. Age 52.

**9 Rajesh Verma**
Managing Director, Engineering Services
Rajesh joined Petrofac Engineering & Construction in 1992 as a project manager when the business was first established in Sharjah. During his tenure he has been responsible for executing a number of EPC projects and subsequently been in charge of Technical Services for the E&C business. He has also been responsible for a number of strategic initiatives for the Company including setting up design offices in Mumbai & Chennai in India. Rajesh now leads the Engineering Services business which brings together Petrofac's operations in Woking, Mumbai & Chennai. He has more than 39 years' experience in the oil & gas industry and holds a degree in Mechanical Engineering from the Birla Institute of Technology and Sciences in India. Age 61.

# Financial review

## Revenue
Group revenue increased by 19.1% to US$4,354.2 million (2009: US$3,655.4 million) due to strong growth in Engineering & Construction and Offshore Engineering & Operations, partly offset by a decrease in Energy Developments following the EnQuest demerger in April 2010. The strong growth in the Engineering & Construction reporting segment (up 29.7%), which accounted for approximately three-quarters of the group's revenue, was as a result of high levels of activity on lump-sum EPC contracts, particularly on those contracts awarded in 2009 and late 2008. The increase in revenues in Offshore Engineering & Operations (up 15.2%) was as a result of activity on major contracts awarded in the second half of 2009 and 2010 and a general improvement in market conditions.

## Operating profit
Group operating profit for the year was US$663.5 million (2009 restated: US$432.0 million), an increase of 53.6%. Excluding the gain on the EnQuest demerger, group operating profit increased by 24.7% to US$538.6 million (2009 restated: US$432.0 million) and operating margins increased to 12.4% (2009 restated: 11.8%). The increase in operating margin was predominantly due to an increase in the operating margin in Engineering & Construction, but also higher operating margins in Energy Developments and Offshore Engineering & Operations, partially offset by a reduction in operating margin in the Engineering, Training Services and Production Solutions reporting segment and a decrease in the proportion of group operating margin generated by the high margin Energy Developments reporting segment following the EnQuest demerger.

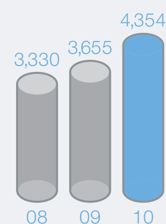
## Net profit
Reported profit for the year attributable to Petrofac Limited shareholders increased 57.8% to US$557.8 million (2009 restated: US$353.6 million). Excluding the gain on the EnQuest demerger of US$124.9 million (2009: nil), profit for the year attributable to Petrofac Limited shareholders increased to US$433.0 million (2009: US$353.6 million), an increase of 26.4% on a like-for-like basis[1]. The increase was driven primarily by strong revenue growth in Engineering & Construction along with an increase in net margin due to excellent operational performance, with good progress on our portfolio of projects, including the completion or substantial completion of five large EPC projects during the year and first time profit recognition on a number of projects. The net margin for the group, excluding the gain on the EnQuest demerger, increased to 9.9% (2009: 9.7%), due to net margin improvement in Engineering & Construction and Offshore Engineering & Operations, offset by net margin reduction in the Engineering, Training Services and Production Solutions and Energy Developments reporting segments and an increase in net corporate and other costs. Net corporate and other costs increased due to a reduction in intra-group interest income earned as a result of Petrofac Limited capitalising a loan to Energy Developments as part of the EnQuest demerger, corporate support costs incurred in relation to the demerger and an increase in other shareholder related costs.

## EBITDA
Reported EBITDA increased 38.1% to US$759.4 million (2009 restated: US$549.7 million). Excluding the gain on the EnQuest demerger of US$124.9 million (2009: nil), EBITDA increased by 15.4% to US$634.5 million (2009 restated: US$549.7 million), representing an EBITDA margin of 14.6% (2009 restated: 15.0%). Despite an increase in EBITDA margins in the Engineering & Construction and Offshore Engineering & Operations reporting segments, only partially offset by lower margins in the Engineering, Training Services and Production Solutions and Energy Developments reporting segments, the group EBITDA margin was lower due to a reduction in the share of group EBITDA, excluding the effect of corporate, consolidation and elimination adjustments, from the higher margin Energy Developments reporting segment following the EnQuest demerger (from 28.7% in 2009 (restated) to 17.8% in 2010). Engineering & Construction's share of group EBITDA, excluding the effect of corporate, consolidation and elimination adjustments, and the gain on the EnQuest demerger, increased to 72.7% (2009 restated: 60.2%) due to strong revenue and margin growth in the Engineering & Construction reporting segment and the relative decrease in Energy Developments' contribution.

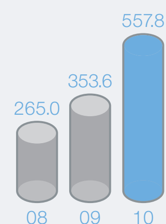
**+19%**

Group revenue increased to US$4,354.2 million.

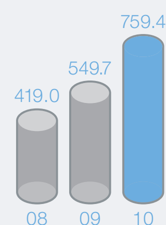
**Revenue**
(US$ millions)




**Net profit**
(US$ millions)




**EBITDA**
(US$ millions)




1 Like-for-like net profit growth excludes the trading net profit from Energy Developments' demerged assets of US$12.7 million for the year ended 31 December 2009 and US$2.1 million for the year ending 31 December 2010.

### Backlog

The group's combined backlog at the end of 2010 stood at record levels of US$11.7 billion (2009: US$8.1 billion), reflecting high levels of order intake during the year, both in Engineering & Construction (US$6.0 billion) and Offshore Engineering & Operations (US$1.6 billion).

### Exchange rates

The group's reporting currency is US Dollars. A significant proportion of Offshore Engineering & Operations' revenue is generated in the UKCS and those revenues and associated costs are generally denominated in Sterling; however, there was little change in the average exchange rate for the US Dollar against Sterling for the years ended 31 December 2010 and 2009 and therefore little exchange rate impact on our US Dollar reported results. The table below sets out the average and year-end exchange rates for the US Dollar and Sterling as used by the group for financial reporting purposes.

### Interest

Net finance income for the year was lower at US$5.1 million (2009: US$6.4 million) due to lower average net cash balances compared to the prior year (see 'Operating cash flow and liquidity').

### Taxation

An analysis of the income tax charge is set out in note 6 to the financial statements. The income tax charge for the year as a percentage of profit before tax was 16.5%. Excluding the gain from the EnQuest demerger (upon which there was no chargeable gain for UK corporate tax purposes), the income tax charge for the year as a percentage of profit before tax was marginally higher than the prior year at 20.3% (2009 restated: 19.3%). The increase was due to Energy Developments' effective tax rate (excluding the gain from the EnQuest demerger) which increased to 50.3% (2009: 30.8%) due to ring fence expenditure supplement no longer being available for claim following the EnQuest demerger. Notwithstanding the adjustments made in the prior year in respect of the applicability of the lower tax rate to the group's projects in Oman, the Engineering & Construction effective tax rate decreased to 16.8% (2009 restated: 18.8%) due to material changes in the jurisdictions in which profits were earned.

### Earnings per share

Fully diluted earnings per share increased to 162.46 cents per share (2009: 103.19 cents), an increase of 57.4%, in line with the group's increase in profit for the year attributable to Petrofac Limited shareholders. Excluding the gain on the EnQuest demerger, fully diluted earnings per share increased by 22.2% to 126.09 cents per share (2009: 103.19 cents).

### Operating cash flow and liquidity

The net cash generated from operations was US$207.3 million (2009: US$1,276.3 million), representing 32.7% of EBITDA excluding the gain on the EnQuest demerger (2009: 228.3%). The lower net cash inflow compared to the prior year was due principally to an unwinding of advance payments received from customers in relation to Engineering & Construction projects, with the 20% advance payment on our major award in Turkmenistan not being received until after the year-end, and a build up of in work in progress. Much of the increase in work in progress related to one Engineering & Construction project, where billing was delayed pending contractual amendments. The work in progress position on this project began to improve during the second half of 2010 following finalisation of the contractual amendments and we expect it to normalise over the coming months.

At 31 December 2010, the group's net cash was lower at US$975.3 million (2009: US$1,300.1 million) as the net result of cash generated from operating profits before working capital and other non-current changes of US$667 million, less:

- net working capital outflows of US$451 million, including a reduction in advance payments received from customers and an increase in work in progress in relation to Engineering & Construction projects, totalling US$491 million (in 2009 the group received net working capital inflows of US$714 million, including US$439 million of advance payments on Engineering & Construction projects)
- investing activities of US$254 million, including:
  - the investment of US$100 million to acquire a 15% stake in Seven Energy (12.6% on a fully diluted basis; see page 45 for details)
  - the acquisition of TNEI, $CO_2$DeepStore, Scotvalve and Stephen Gillespie Consultants at a cost of US$15 million and the investment of an initial US$8 million for a 20% stake in Gateway Gas Storage (see page 48)
  - capital expenditure of US$59 million in relation to Energy Developments' portfolio of assets, including US$26 million on the Don fields prior to the EnQuest demerger and US$16 million on Cendor PM304 near field development
  - capital expenditure on other property, plant and equipment of US$72 million, including temporary project camp facilities, office equipment and furniture and site-based vehicles, predominantly in Engineering & Construction

**US$11.7bn**

The group's backlog stood at record levels at 31 December 2010.

**Financial reporting exchange rates**

| US$/Sterling | 2010 | 2009 |
|---|---|---|
| Average rate for the year | **1.54** | 1.56 |
| Year-end rate | **1.56** | 1.62 |

# Financial review continued

## Gearing ratio

| US$ millions (unless otherwise stated) | 2010 | 2009 Restated |
|---|---|---|
| Interest-bearing loans and borrowings (A) | **87.7** | 117.3 |
| Cash and short term deposits (B) | **1,063.0** | 1,417.4 |
| Net cash/(debt) (C = B – A) | **975.3** | 1,300.1 |
| Total net assets (D) | **779.1** | 897.5 |
| Gross gearing ratio (A/D) | **11.3%** | 13.1% |
| Net gearing ratio (C/D) | **Net cash position** | Net cash position |

- financing activities of US$201 million, including:
  - payment of the 2009 final dividend and 2010 interim dividend totalling US$132 million
  - repayment of interest-bearing loans and borrowings of US$32 million
  - financing the purchase of treasury shares for the purpose of making awards under the group's share schemes of US$36 million
- taxes paid of US$99 million

The group reduced its levels of interest-bearing loans and borrowings to US$87.7 million (2009: US$117.3 million) following scheduled loan repayments in 2010. Despite a reduction in the net assets of the group as a result of the EnQuest demerger, the group's gross gearing ratio fell to 11.3% (2009 restated: 13.1%) reflecting the reduction in interest-bearing loans and borrowings.

The group's total gross borrowings before associated debt acquisition costs at the end of 2010 were US$91.8 million (2009: US$123.1 million), of which 39.5% was denominated in US Dollars (2009: 51.0%) and 60.5% was denominated in Sterling (2009: 49.0%).

As detailed in note 33 to the financial statements, the group maintained a balanced borrowing profile at 31 December 2010 with 51.7% of borrowings maturing within one year and 48.3% maturing between one and five years (2009: 47.2% and 52.8%). The borrowings repayable within one year include US$28.9 million of bank overdrafts (representing 31.5% of total gross borrowings), which are expected to be renewed during 2011 in the normal course of business (2009: US$46.6 million and 37.9% of total gross borrowings repayable within one year, including US$20.0 million of revolving credit facilities).

None of the Company's subsidiaries are subject to any material restrictions on their ability to transfer funds in the form of cash dividends, loans or advances to the Company.

### Capital expenditure

Capital expenditure on property, plant and equipment was lower during the year ended 31 December 2010 at US$116.2 million (2009: US$375.4 million), as almost three-quarters of the capital expenditure in the prior year was in relation to the now demerged Don assets. The principal elements of capital expenditure during the year were:

- investment in temporary project camps, office improvements, equipment and furniture and vehicles in Engineering & Construction, reflecting the increase in activity levels and personnel, of US$60.1 million
- additions to Energy Developments' oil & gas assets, including:
  - development expenditure on the Don assets prior to demerger of US$26.1 million
  - upgrade works on the FPF1 floating production facility of US$7.3 million

Capital expenditure on intangible oil & gas assets during the year was US$15.6 million (2009: US$29.2 million) in respect of capitalised expenditure on near field appraisal wells in relation to Energy Developments' interest in Block PM304, offshore Malaysia.

### Shareholders' funds

Total equity at 31 December 2010 was US$779.1 million (2009 restated: US$897.5 million). The main elements of the net movement were: net profit for the year of US$557.9 million, less dividends paid in the year of US$132.0 million, the distribution on the EnQuest demerger of US$544.5 million (see note 11 to the financial statements) and the purchase of treasury shares of US$36.5 million, which are held in the Petrofac Employees Benefit Trust for the purpose of making awards under the group's share schemes (see note 23 to the financial statements).

### Return on capital employed

The group's return on capital employed, including the gain on the EnQuest demerger, for the year ended 31 December 2010 was 65.2% (2009: 46.9%).

### Dividends and distribution

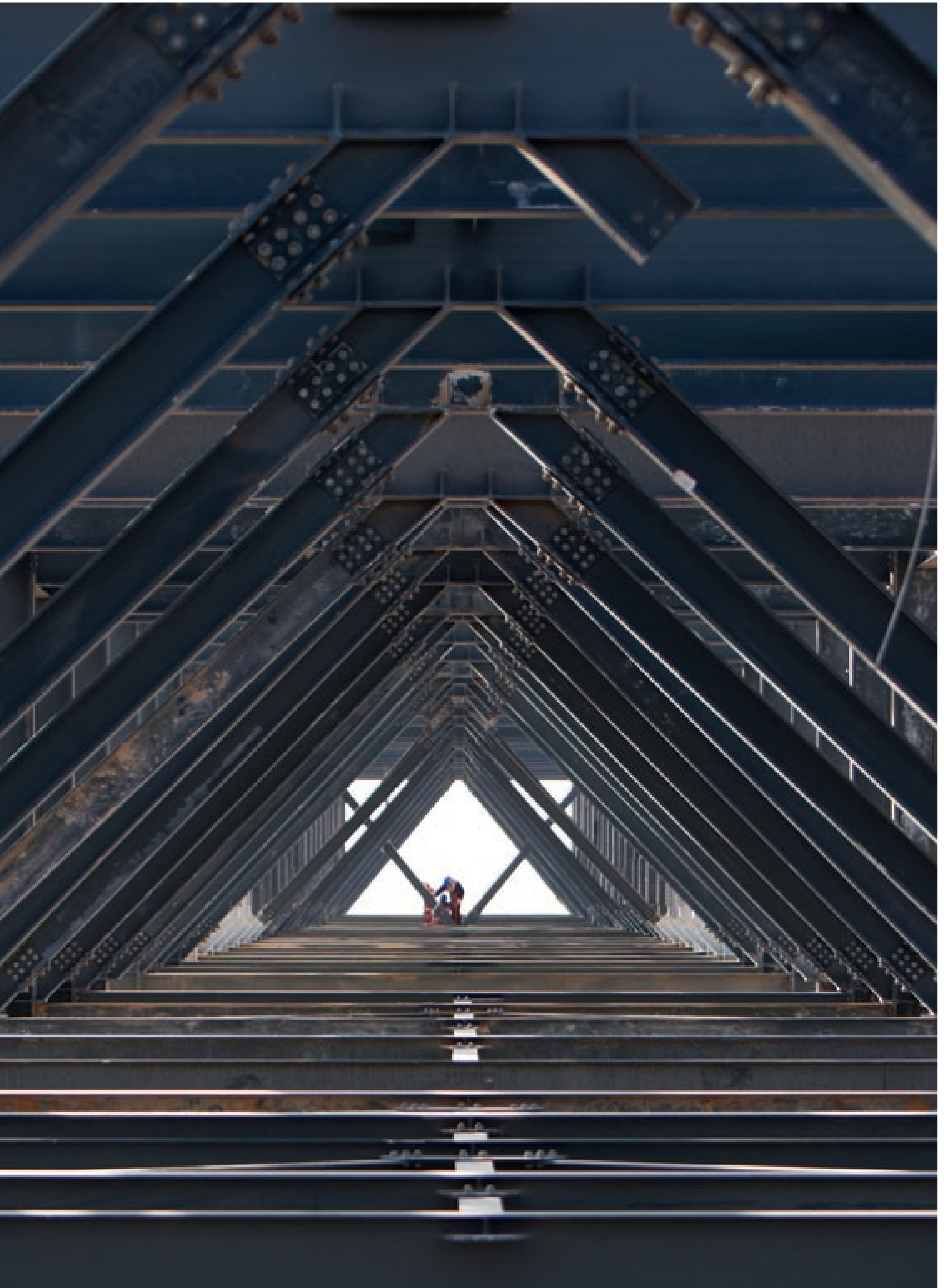
The Company proposes a final dividend of 30.00 cents per share for the year ended 31 December 2010 (2009: 25.10 cents), which, if approved, will be paid to shareholders on 20 May 2011 provided they were on the register on 26 April 2011. Shareholders who have not elected (before 4 March 2011) to receive dividends in US Dollars will receive a Sterling equivalent of 18.42 pence per share.

Together with the interim dividend of 13.80 cents per share (2009: 10.70 cents), equivalent to 8.91 pence, this gives a total dividend for the year of 43.80 cents per share (2009: 35.80 cents), an increase of 22.3%.

In addition to the interim and final dividends, the Company made a non-cash distribution of one EnQuest share for every one Petrofac Limited share held immediately prior to the demerger, which for accounting purposes had a total fair value of US$553.3 million, equivalent to 160.08 cents per share.

### Forward-looking statements

The Business Review (pages 16 to 54) contains forward-looking statements with respect to the financial condition, results, and operations of the group. By their nature, forward-looking statements involve a number of risks, uncertainties or assumptions that could cause actual results or events to differ materially from those expressed or implied by the forward-looking statements. These risks, uncertainties or assumptions could adversely affect the outcome and financial effects of the plans and events described herein. Forward-looking statements contained in the Business Review regarding past trends or activities should not be taken as representation that such trends or activities will continue in the future. Petrofac Limited undertakes no obligation to update the forward-looking statements contained in this review or any other forward-looking statements made.



# Our CSR strategy...

## ...allows us to grow our reputation as a socially responsible company

### Planning for a better future

Petrofac works in partnership with the communities in which we operate. From our strategic commitment to training local workers to our joint business ventures with customers and sponsorships of schools, we work hand-in-hand with our stakeholders.

Such close partnerships underpin our business strategy. Our relationships with customers reflect, and depend upon, our respect for their communities and to recruit and retain exceptional people, we must be a responsible employer. To remain successful, we need to make responsible business practices – which to us mean achieving commercial success in ways that respect people, communities and the natural environment – part of our culture.

Due to our rapid growth our approach to corporate social responsibility (CSR) has not been as coherent as we would have wished, but this is something we are proactively addressing. In 2010, our Board committed to the development of a new CSR strategy, aligned to the ten principles of the UN Global Compact, to which we became a signatory in 2009. We also worked to strengthen the strategic focus, senior management and organisation of the areas that are particularly linked to the wider CSR arena: health, safety, security, environment and integrity assurance (HSSEIA), human resources (HR), compliance and community investment.

We are now embarking on a well-planned CSR journey: we still have a long way to go but believe recent activities have set us on the road to becoming the truly socially responsible company we want to be.

### Health, safety, security and integrity assurance

The safety of both our operations and our people is a strategic priority: in 2010, we took systematic steps to further protect both. Action included an international programme to assess and develop our oil spill response capability, comprehensive security arrangements in high-risk countries and a group-wide employee road safety awareness campaign.

**Turn to page 60 to find out more**

## Marketplace

Ethical behaviour is promoted and encouraged right across Petrofac. In 2010, we commissioned Transparency International to review our bribery and corruption risk management strategy and emphasised our commitment to human rights. We sought guidance on how we could improve, manage and integrate CSR practices within our organisation and carried out a targeted survey of stakeholder perceptions of Petrofac.

**Turn to page 58 to find out more**

## Community

We want every community in which Petrofac works to feel included and respected and for our legacy there to be greater self-sufficiency, increased business opportunities and new, locally-developed skills. Our investment in education involves assisting young people at all levels, from primary school funding to scholarships in India and engineering fellowships in the UK.

**Turn to page 66 to find out more**

## Our people

Petrofac's success is rooted in its exceptional people. In 2010, we acted to ensure our global workforce continued to have the right technical and leadership skills to serve our customers and grow our business. Group-wide HR initiatives included the launch of a global performance management capability and the introduction of a consistent employee grading system.

**Turn to page 64 to find out more**

## Environment

Limiting carbon emissions, meeting exacting environmental management standards and monitoring customer discharges are just some of the ways we limit our impact on the environment. We also seek to enhance the natural world: in 2010, our third Planet Petrofac month mobilised thousands of staff, in environmental activities ranging from mangrove planting to litter collection.

**Turn to page 62 to find out more**

Marketplace

# Delivering...

## Our business ethics

Ethical conduct is one of Petrofac's five core values. We strive to display the highest standards of transparency and integrity in the way we operate, and to deliver on our promises.

As a signatory to the United Nations Global Compact, we are committed to making continuous improvements in our approach to human rights, labour, environment and anti-corruption. In 2010, we submitted updates on our progress in the areas of the environment and anti-corruption which, as is customary, were posted on the Global Compact website.

Our Code of Business Conduct sets out clear standards of behaviour for our entire group and highlights our Speaking Up process whereby employees can raise concerns in complete confidence. We ask all our employees, partners and sub-contractors to acknowledge the code. By the end of 2010, around 6,000 employees have now completed a bespoke e-learning module on the code.

**Stakeholder survey**

**100**

stakeholders completed a reputation survey on Petrofac in 2010.

**e-learning in Petrofac**

**6,000**

The approximate number of employees who had completed COBC e-learning by the end of 2010.

## Combatting corruption

As our Code of Business Conduct states, Petrofac does not permit the giving or receiving of bribes. In 2010, in consultation with our businesses, we developed a risk management standard that covers the full remit of bribery and corruption in response to the UK Bribery Act 2010.

In 2011, we will deliver an extensive education programme across the group to implement our risk management standard and to help ensure that we have a consistent and effective risk management strategy for the prevention of bribery and corruption in our operations.

Other anti-corruption activities include:

- commissioning Transparency International to review our bribery and corruption risk management system and attending a number of Transparency International sponsored events
- being a signatory of the World Economic Forum's Partnership Against Corruption Initiative and attending its annual conference in December 2010

## Human rights

In 2010, Petrofac updated its ethical, social and regulatory risk policy (www.petrofac.com/communities) to emphasise that it 'does not engage in any business activities that could implicate the Company, directly or indirectly, in the abuse of human rights'. In 2011, we plan to undertake a review of our exposure to this risk in the countries in which we operate.

## Engaging with our stakeholders

We are keen to learn from, and engage with, others to ensure that we pursue best practice and focus on the areas of most significance for our stakeholders.

During the year, we undertook our first stakeholder survey to gauge awareness of, and response to Petrofac. The survey was undertaken on our behalf by a specialist third party and around 100 of Petrofac's stakeholders were surveyed on an unattributed basis, including: customers, partners, suppliers, shareholders, analysts, media, industry bodies, NGOs and community groups. The results were shared with the group's leadership team at the annual leadership conference and will be used a benchmark for future surveys.

In 2010, we undertook a benchmarking exercise with Business in the Community (BITC) to assess our strengths and weaknesses across the four management areas: marketplace, workplace, community and environment. We have used the BITC framework to form the basis of our CSR reporting.

As a result we have developed a CSR strategy that addresses the most important corporate responsibility issues for Petrofac, namely: climate change, local content, skills and education and road safety.

In 2011, we plan to broaden the dialogue around our CSR strategy with the involvement of external audiences, as part of a stakeholder engagement programme.

# ...the highest standards of transparency and integrity in the way we operate

# Ensuring...

## The safety of our people, customers and operations is our highest priority.

In 2010, we continued to focus on two areas:

- the technical integrity of the plants we design, build and operate, to minimise the risk of major accidents, such as fire and explosion
- the prevention of occupational safety risks, to help prevent personal injury

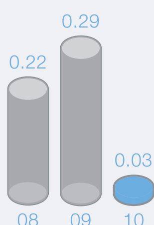
### Plant integrity

During the year, Petrofac reinforced the importance of robust asset integrity management with an internal education and awareness-raising programme. We designated 2010 as the Year of Integrity and Quality across our engineering businesses, and created supporting e-learning modules, DVDs of case studies and customised presentations. Technical integrity was the theme of our annual safety seminar, which was attended by 90 senior managers, including our Group Chief Executive, Group Chief Operating Officer and Petrofac's seven business unit managing directors. We also created the role of Director of Integrity to champion best practice.

**77 million km**

We drove 77 million km or almost 2,000 times around the world.

**Driving Incident Frequency Rate**
(incidents per million km driven)




Our Asset Integrity Review Board met monthly to review plant integrity. The Board is chaired by our Offshore Engineering & Operations Managing Director and our HSSEIA Director and involves operations managers from all operated sites. The meetings help anticipate potential issues and provide a forum for peer review and support. In 2010, we improved the metrics we use to measure asset integrity performance and analyse trends. Each operation reports against around 30 measures covering plant reliability and condition, the management of maintenance and assurance activities and organisational matters such as competence assurance.

Following recent events in the Gulf of Mexico, we acted to confirm that our operations are protected against major incidents and, in the event they do occur, that we respond effectively. Our programme included:

- an assessment of oil spill response capability at all oil & gas production facilities
- review of emergency response arrangements
- a technical safety review of five major facilities
- new group standards for oil spill response and integrity management
- a revision to our standards for emergency response and crisis management

We continued to work with the wider industry to reduce risk. Petrofac Training Services is a leading emergency response trainer, while our UK Emergency Response Service Centre in Aberdeen provides a 24-hour integrated response capability. We are members of the UK Oil Spill Prevention and Response Advisory Group and actively support the UK oil & gas industry safety initiative, Step Change in Safety, and its working groups.

### A safe working environment

We strive to ensure that all our people have a safe and secure workplace.

Sadly, in 2010, a fatal accident occurred at our El Merk project in Algeria. The incident was investigated fully and the results of the investigation were reviewed at our quarterly group Incident Review Board, which is a senior level review attended by all the business unit managing directors, to make sure that lessons learned from any significant incident are effectively shared.

The circumstances were also separately reviewed by the executive management team.

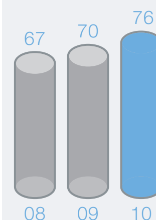
Notwithstanding this deeply regrettable incident, our safety performance – which we measure according to Occupational Safety and Health Administration rules – was maintained at a similar level to 2009. Our recordable incident frequency rate was 0.18 per 200,000 man-hours (2009: 0.36) and our lost time injury frequency rate was 0.026 (2009: 0.020). There were 13 'major potential incidents' (2009: 23). 'Potential' is the key word here – the criteria for reporting is the potential for harm, so although very few of these incidents actually resulted in personal injury or damage, all were reviewed in great detail.

Safe driving is one of our eight 'golden rules of safety' and, in 2010, was the focus of a group-wide employee campaign. During the year, our vehicles travelled more than 77 million km between locations or on project sites: equivalent to driving almost 2,000 times around the globe. Our driving incident frequency rate, which records major or serious vehicle incidents, fell from 0.29 incidents per million km driven in 2009 to 0.03. Whilst this improvement is encouraging, we continue to regard driving as one of our biggest areas of risk and will not slacken our efforts to improve further.

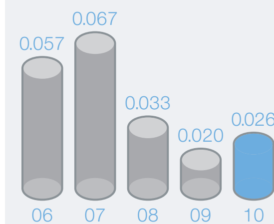
We investigate all incidents and accidents, circulate guidance from lessons learnt and follow up actions. Our aspiration is to have no recordable incidents of any kind and were pleased that many sites achieved this during the year.

# ...our people have a safe working environment

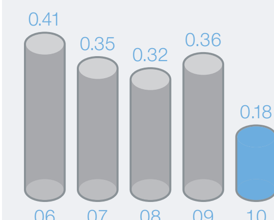
**Man-hours worked**
(million man-hours completed by employees and subcontractors)




**Lost Time Injury Frequency Rate**
(per 200,000 man-hours)




**Recordable Incident Frequency Rate**
(per 200,000 man-hours)




## Staff health and welfare

High standards of staff health and welfare are both good employer practice and essential to efficient operations. We provide health and fitness checks for senior managers and comprehensive medical assessments for those at risk, particularly when located offshore and abroad. Exercise and recreational facilities are provided at most sites to encourage personal fitness and medical teams are based at most facilities. Occupational health support is also available.

## Security

The hazardous nature of our work is heightened in some countries by political instability or civil unrest. To meet such challenges, Petrofac invests a great deal of effort in protecting the security of our people and of our physical assets.

In 2010, our recently appointed Group Head of Security implemented a security audit of all our facilities. This rolling programme complements the security review and preparations we carry out before commencing all new projects. During the year, we carried out a comprehensive review in Turkmenistan and our move into Iraq and Nigeria involved particularly intensive security provisions.

We monitor intelligence about changing security situations and keep our staff informed, for example, by sending out weekly travel and security guidance. We act quickly to protect our people when conditions deteriorate: in 2010, we evacuated a number of staff from perceived trouble-spots.

# Reducing...

## In 2010, Petrofac acted to both limit our impact on the environment and to work with stakeholders to protect the natural world.

We appointed a Group Head of Environment, to help raise standards across the Company and lead strategic environmental initiatives. The new role complements the environment teams already active in our business units.

We also developed plans for a company-wide environment steering group, involving senior business heads and functional environment managers. This group will focus on strategic issues, such as pollution prevention, waste management and resource consumption, and will be supported by an environmental working group.

### Our carbon footprint

Our operations, including joint venture operations but excluding customer-owned facilities, emitted 205,695 tonnes of $CO_2$ (2009: 208,100). This reduction is due to the fact that our share of the $CO_2$ emissions for the Dons field was lower as the asset was transferred to EnQuest PLC in April as a result of the demerger of our UKCS assets.

Petrofac is proactive in sharing carbon generation data. In 2010, we contributed to the worldwide Carbon Disclosure Project and, in the UK, participate in the Government's Carbon Reduction Commitment Energy Efficiency Scheme.

**1,650**

trees were planted as part of environment month campaign in 2010.

### Monitoring for customers

As well as measuring our own carbon emissions, Petrofac monitors and collects carbon data for the facilities we manage for customers. We also perform more extensive monitoring for customers of the North Sea facilities that we operate, under the Oslo-Paris Convention environmental management requirements. Additionally, under the terms of the European Environmental Emissions Monitoring System, we monitor discharges of hydrocarbons, heavy metal and radiation contamination and for air emissions of sulphur dioxide, oxides of nitrogen and volatile organic carbons, as well as for carbon dioxide. We also segregate all waste leaving operated facilities and report it by category.

### Environmental standards

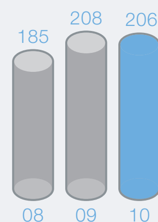
Comprehensive environmental impact assessments are carried out prior to all new projects. We follow a systematic approach to environmental management, even in geographies where such high standards are not required by law. Around 95% of work that we do, calculated by man-hours expended, is covered by the independently verified ISO 14001 international standard.

**Carbon emissions**

**205,695**

tonnes of carbon emissions generated in 2010.

**Tonnes of $CO_2$ emitted**
(thousands)



### Contributing to communities

We aim to bring Petrofac people and the community together to make a positive difference to our environment.

Our third annual Planet Petrofac environment month celebrated bio-diversity, in support of the United Nations' 'International Year of Bio-diversity'. Thousands of employees at 17 locations took part in such activities as mangrove and native tree planting, collections for orphanages, guided nature walks, community lectures and litter-collections on beaches and seabeds.

As part of our partnership with local communities, we are a member of the Arab Forum for Environment and Development and, within the UAE, work closely with the Emirates Environmental Group and sponsor a renewable energy research programme at the American University of Sharjah.

# ...our global carbon footprint

# Supporting...

## Our customers use Petrofac because they know they can rely on the skills and commitment of our people.

In 2010, we continued to take steps to ensure we had the best people, with the right skills, to serve our customers – not just now, but for decades to come. Such activity is essential in the context of the wider industry's challenge to ensure it has the right talent for the future. We focused particularly on resourcing, talent management and employee engagement and on developing a more integrated organisation.

### Effective resourcing

We applied a more strategic approach to Company-wide resourcing, including the drafting of a five-year human resource strategy and the appointment of a Head of Resourcing.

## Our values

91% of participants in our survey share our Company values.

Petrofac people are:

- safe
- ethical
- innovative
- cost-conscious
- responsive to customers and always focus relentlessly on delivering results

**"I never cease to be impressed by the determination of our people. Throughout our 30-year history, we have encountered numerous challenges, particularly in relation to the execution of our projects. In these instances it is the absolute commitment – the relentless focus – on finding a solution that has often created positive outcomes from difficult situations."**

Ayman Asfari
Group Chief Executive

We recruited widely, including the appointment of more than 120 senior managers, to meet the immediate needs of our expanding business and help provide the next generation of leaders.

Reflecting our strategic commitment to local content, wherever possible, we aim to recruit, train and develop employees from local communities. For example, following the December 2010 award of a contract to develop the SEPAT offshore early production system in Malaysia, we are staffing the project almost entirely with local employees.

### Talent management

We want to make sure our employees have the right technical and managerial skills to succeed. During the year, we further refined our development programmes for all levels of staff.

To coach the executives of tomorrow, we began a partnership with the London Business School to create 'Petrofac Leadership Excellence'. The programme, to aid the development of our senior people, will be rolled out in 2011. In November 2010, we also gathered more than 70 of our most senior managers at a leadership conference to share best practice, strengthen relationships and teamwork, and build strategic understanding.

To nurture leadership potential, we assessed recent graduate recruits and designed development opportunities for those likely to become managers or directors. Additionally, all our business units took steps to create challenging assignments to equip people for more senior positions.

We built development frameworks for our wider workforce by commencing the introduction of individual development plans for all employees. The extension of our e-learning capability to around two thirds of our locations was another step towards our strategy of improving technical competences.

### Creating one Petrofac

Our new enterprise resource planning (ERP) system, TEMPO, which we began rolling out in 2010, is helping to establish a consistent approach to group HR initiatives. The system supports the launch of a global performance management capability, including an annual appraisal with mid-year review, a common behavioural competence framework and clear visibility of development needs. In another move towards group-wide consistency, we began the roll out of a global grading system for employees.

Petrofac has a committed and engaged workforce. In 2009, our biennial employee survey, PetroVoices, showed 91% of participants share company values and almost one in three employees are part of our share incentive schemes. As part of our support for employee share ownership, we implemented an employee share portal and an automated staff share dealing facility. In addition, in early 2010, we appointed an experienced Share Plan Manager to help improve our service to employees. We were delighted to be commended by ifs ProShare as part of its annual award scheme.

### Effective communication

Communication is key to engaging our people and creating a unified culture.

During the year, we sought to communicate more effectively with our dispersed, multicultural workforce, many of whom work in remote locations with limited digital access.

**New talent**

**3,200**

new staff joined Petrofac in 2010

- 97% of graduates hired since 2008 are still working for Petrofac
- Graduates recruited:
  2008 – 104
  2009 – 120
  2010 – 107
- 4% of Petrofac employees left by choice in 2010

# ...the development and training of our people

We created a team briefing framework, partly in response to calls for better internal communication, particularly at a local level, in the PetroVoices survey. 'Team Talk' incorporates strategic, business unit and local content and, following a 2010 pilot, will be rolled out globally. It will form one part of a planned 'toolkit' to help the whole business communicate more effectively.

Specific staff communication programmes supported key group activity, such as the EnQuest demerger, the employee grading initiative, the ERP roll out, the PetroVoices survey results and environment month. We also continued to produce the quarterly Petrofacts magazine and again ran the Picture Petrofac photography competition for staff.

In line with further PetroVoices survey feedback, our business units evolved their own communications strategies, supported by intranets, newsletters and event programmes.

In 2011, a new Internal Communications Manager will manage the continuing development of our employee communications offering, including the planned launch of a more powerful company-wide intranet. During the year, we will also undertake our third PetroVoices employee survey.

We are proud of how highly our people identify with our values; as mentioned above, in our most recent employee survey, 91% of participants said they shared Petrofac's values.

In 2011, we will celebrate employees who particularly embody our values in the way they work, with the launch of the Petrofac EVE Awards programme, designed to recognise and reward excellence, values and energy. This is a new initiative that will be open to all employees worldwide to demonstrate how they embody one or more of the values in their daily activities. In addition to raising awareness of our values and what they mean, the awards seek to celebrate and recognise the achievements of the exceptional people who work across our group.

# Investing...

Petrofac aims to build relationships with, and to create value for, the communities we work with around the world.

### Developing local workforces

Aspiring Syrian oil & gas workers now have the chance to develop their skills at the country's first dedicated industry training centre.

The National Training Centre was designed, refurbished and equipped by Petrofac and was inaugurated in October 2010 by the Syrian Prime Minister, His Excellency Mohammad Naji Ottri. It will deliver year-long competence-led training courses to up to 120 Syrian people each year, with instruction in technical English and in technical and safety training across the electrical, mechanical, instrumentation and production disciplines.

Speaking at the launch event Group Chief Executive Ayman Asfari said:

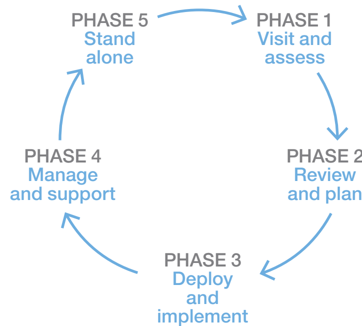
**"Petrofac has been active in Syria since the early nineties through our Engineering & Construction business and we have grown up alongside the oil & gas industry here. We have been honoured today by the presence of His Excellency the Prime Minister, which reflects the importance of this new facility to Syria and I am proud of our involvement."**

We believe this approach both fosters local stability, during the period of our projects, and by encouraging the development of the wider community – beyond our workforce – helps build sustainable communities for the long-term.

To ensure we approach future community investment in the best way, in 2010, we developed a new strategy. This new community investment strategy involves a five-stage process, as shown in the diagram below that will ensure that:

- national community investment strategies are developed for each new market prior to entry, with CSR planning part of the pre-bid activity
- local stakeholders are involved in strategic planning, to assess community needs and expectations, and in ongoing dialogue
- evaluation systems are developed for all new projects

### Continuous improvement cycle




The strategy is being implemented by our first full-time Group Head of Corporate Social Responsibility, who was appointed in 2010.

Delivering projects with local employees is integral to our business strategy and one of our key differentiators. Our community investment approach supports this strategy, by helping to equip communities with essential skills.

In October 2010, we designed, refurbished and equipped Syria's first oil & gas training centre (see case study) as a donation to the Syrian Government, in support of its drive to develop personnel for its growing oil & gas sector. In Algeria, we built a construction skills training centre to equip local people for work in the national oil & gas industry.

Apart from supporting professional development, our community investment programme fosters all levels of learning, from elementary and secondary schooling to higher education. This support ranges from providing scholarships to pupils in India and Kyrgyzstan to funding employee 'science ambassadors' who visit UK schools enthusing young people about science and engineering.

During the year, the first intake of UK engineering students from the Petrofac Royal Academy of Engineering Fellowship Programme finished their year-long masters courses. In financing the £250,000, three-year programme, we hope to go some way to offset the scarcity of engineers at Western universities that is leading to a critical skills shortage in our industry.

# ...in communities we live and work in

Reflecting the focus we place on safe driving internally, our community education focus extends to road safety. In the UAE, for example, we have committed Dhs 1.5 million to support a year-long Sharjah Police road safety campaign aimed at young drivers and in the UK donated £15,000 to an Aberdeen-area school 'Safe Drive Stay Alive' campaign.

Engaging employees
Staff CSR champions encourage our people to engage in local good causes around the world. In 2010, employee-led activity included Sharjah employees raising US$100,000 – which was matched by Petrofac – for Pakistani flood victims; Aberdeen staff raising £40,000 to fund juvenile diabetes research, and our Woking office sponsoring a teenage sailor with disabilities who is aiming to compete in the 2012 Paralympic Games.

Looking ahead, our key community objective for 2011 is to fully assess and understand the wide range of activities that we are involved in, across the organisation, and to measure their value. The development of KPIs for our community investment programme is another priority.

**£100,000**

Raised by employees for local good causes around the world.

For more information about our CSR programmes see: www.petrofac.com/communities

# Directors' information

## Directors who served in 2010

### 1 Rodney Chase

Non-executive Chairman [a]

Rodney became non-executive Chairman of Petrofac in June 2005. He spent 38 years at BP plc, including 11 on its board, and was deputy group CEO on his retirement in May 2003. His other roles at BP included time as CEO of the exploration & production and marketing and refining divisions. Rodney is a non-executive director of Computer Sciences Corporation, Nalco Company and Tesoro Corporation. He is a former board member of Tesco plc, BOC plc and Diageo plc. Rodney is 67.

Rodney is stepping down from the Board at the 2011 AGM.

### 2 Ayman Asfari

Group Chief Executive [a]

Ayman became Group Chief Executive of Petrofac Limited in January 2002. He joined the group in 1991 to establish Petrofac International, of which he was CEO. He has more than 30 years' experience in the oil & gas industry, having formerly worked as managing director of a major civil and mechanical construction business in Oman. He is a member of the board of trustees of the American University of Beirut. Ayman is 52.

### 3 Maroun Semaan

Group Chief Operating Officer

Maroun was appointed Group Chief Operating Officer in January 2009, with overall responsibility for Engineering & Construction, Engineering & Construction Ventures, Engineering Services, Offshore Engineering & Operations and Training Services. He joined the group in 1991 to establish Petrofac International. Previously, he managed oil & gas pipeline, process facilities and civil works construction contracts in Oman and Bahrain, with the Consolidated Contractors International Company. He is a member of the board of trustees of the American University of Sharjah and a founding member of the board of trustees of the Arab Forum for Environment and Development. Maroun is 55.

### 4 Kjell Almskog

Senior Independent Director, Non-executive Director [a b c d]

Kjell joined the Petrofac Board in March 2005. He was chief executive of Kvaerner from 1998 until its merger with Aker in 2001. Before this, he spent 13 years with the international ABB group, including time as deputy group CEO and head of the oil, gas & petrochemicals division. Kjell is non-executive deputy chairman of Kverneland Group ASA, non-executive board member of Equinox Offshore Accommodation Limited and a senior adviser to the Taylor Group. Kjell is 70.

Kjell will retire from the Board at the 2011 AGM.

### 5 Keith Roberts
Chief Financial Officer

Keith joined Petrofac as Chief Financial Officer in March 2002. He was formerly a managing director and operating committee member of corporate finance advisory firm Hawkpoint Partners. His previous experience includes roles in commercial banking with Standard Chartered Bank and County Bank, the merchant banking subsidiary of National Westminster Bank. He is a former non-executive director of the Peacock Group plc. Keith is 54.

### 6 Rijnhard van Tets
Non-executive Director [a b c]

Rijnhard became a non-executive director in 2007. He is general partner of Laaken Asset Management NV. Rijnhard advised the managing board of ABN AMRO between 2002 and 2007, having previously served as a managing board member for 12 years. At ABN AMRO, his roles included that of chairman of the wholesale clients and investment banking group. He is non-executive chairman of Arcadis NV, Euronext Amsterdam NV, Euronext NV and Equity Trust Holdings SARL, and a non-executive director of IFF Europe, NYSE Euronext Inc, Stichting Administratiekantoor Bührmann NV and of various charities. Rijnhard is 63.

### 7 Thomas Thune Andersen
Non-executive Director [a b d]

Thomas became a non-executive director in May 2010. He spent 32 years at the A.P. Møller-Mærsk group with an international career ending as CEO and president of Mærsk's Oil & Gas A/S. He also served on Mærsk's main board and its executive committee from 2005 to 2009. He is a non-executive director of Scottish & Southern Energy plc, chairman of the Lloyds Register group board of trustees, chairman of the British Danish Chamber of Commerce and a non-executive director of VKR Holding. Thomas is 56.

### 8 Stefano Cao
Non-executive Director [a c d]

Stefano became a non-executive director in May 2010. He is CEO of Sintonia SA, a holding company owning infrastructure assets, including toll roads, airports and telecoms. Stefano has 33 years' experience in the oil & gas industry. From 2000 to 2008, he was COO of Eni's exploration & production division. Before which he spent 24 years at Saipem SpA, the international oil & gas services group, holding such senior roles as CEO, chairman and COO. He is a former independent director of Telecom Italia SpA. Stefano is 59.

a Member of the Nominations Committee
b Member of the Audit Committee
c Member of the Risk Committee
d Member of the Remuneration Committee

# Directors' information

## Directors appointed in 2011

9

10

11

### 9 Norman Murray

Non-executive Director [e]

Norman joined the Petrofac Board as a non-executive director in March 2011 with the intention that he will succeed Rodney as Chairman after the 2011 AGM. He is chairman of Cairn Energy plc and a non-executive director of Greene King plc and Robert Wiseman Dairies plc. Prior to his portfolio career, Norman spent 25 years in the venture capital industry. He co-founded Morgan Grenfell Private Equity Limited and was also a director of Morgan Grenfell Asset Management Limited. He is a former chairman of the British Venture Capital Association and a past president of the Institute of Chartered Accountants of Scotland. Norman is 63.

### 10 Roxanne Decyk

Non-executive Director [f]

Roxanne joined the Petrofac Board in March 2011 having retired from The Royal Dutch Shell Group after 11 years. She held a number of roles at Shell including head of global government affairs and corporate affairs director and was a member of Shell's executive committee from 2005 to 2009. Prior to joining Shell, Roxanne had various roles at Amoco Corporation and Navistar International. She is an independent director of Snap-on Incorporated and Alliant Techsystems Inc. She is a former director of Logica plc and Material Sciences Corporation. Roxanne is 58.

### 11 Andy Inglis

Chief Executive, Energy Developments and Production Solutions

Andy joined Petrofac in January 2011 and was appointed to the Board in March 2011. He spent 30 years with BP, most latterly as CEO of its exploration & production business. Andy was an executive director on the BP plc board between 2007 and 2010. He started his BP career as a project engineer on various North Sea projects, followed by commercial and operating roles in BP's upstream business. He became executive vice president and deputy chief executive of BP exploration & production in 2004. He is a former non-executive director of BAE Systems plc. Andy is 51.

e Norman Murray will be appointed Chairman of the Nominations Committee after the 2011 AGM subject to shareholder approval

f Roxanne Decyk will be appointed to the Nominations, Audit, Risk and Remuneration Committees after the 2011 AGM subject to shareholder approval

# Corporate governance report

Rodney Chase

Your Board is responsible for promoting long-term shareholder value in a responsible manner that takes account of our various stakeholders.

Dear shareholder

This is my final governance report as I will be stepping down from the Board at the forthcoming Annual General Meeting (AGM). Since I joined the Board we have made great progress in many areas, including in relation to our governance framework. Nevertheless, we are always seeking to improve our processes, within the overarching principle that we do what is best for our Company and its shareholders.

We are aware that companies are, in my view quite correctly, being challenged to write governance reports that are more engaging and less riddled with the 'fungus of boiler plate reporting'. In response, this year we have tried to write a more accessible report.

**What is our approach to governance?**
Petrofac is incorporated in Jersey and has a premium listing on the London Stock Exchange. The Company is therefore expected to meet the UK's highest standards of regulation and corporate governance. A company with a premium listing is required by the United Kingdom Listing Authority to adopt the new UK Corporate Governance Code ('UK Code') regardless of whether it is incorporated in the UK or elsewhere.

This marks a change from last year when, due to our Jersey incorporation, we were not obliged to adhere to the UK Code's predecessor, the Combined Code. At that time we were merely required to govern ourselves in line with governance practice in Jersey, where there is no formal code. However, Petrofac has chosen to follow the Combined Code since the Company first listed almost six years ago, as we felt it was best practice. We now welcome the change in the compliance regime for premium listed companies incorporated outside the UK.

We understand, though, that good governance goes beyond adherence to a code: although there is, of course, value in monitoring compliance against rules, which are generally formulated for good reason. Nevertheless, the fundamental value of good governance is that it seeks to ensure that a company is well run. As well as promoting challenge, accountability and transparency it provides a framework that articulates a company's goals and objectives and allows decisions to be taken by the right people at the right time. We believe that we have made good progress in strengthening and deepening our governance framework this year and will aim to improve further in 2011.

The Financial Reporting Council (FRC) published the UK Code in 2010. The FRC published the new code earlier than originally planned both in response to various corporate failures in 2008 and the publication of the Walker report in 2009 on the governance of banks and other financial institutions. Questions were rightly asked at the time about whether the UK's governance regime continued to be effective. While the FRC concluded that the UK's 'comply or explain' regime continued to be largely appropriate, it introduced a number of changes that we welcome, in particular the more explicit requirement for boards to articulate their risk appetite and to identify and determine the significant risks they are prepared to take.

We are required to apply the UK Code from the start of 2011 and formally report against it for the first time next year. We believe, however, that it makes sense to tell you now about our progress in implementing the UK Code and this is what we have done even if some matters are still work in progress.

# Corporate governance report continued

This is the last year we report our compliance with the old Combined Code and I am pleased to say that we consider that, throughout 2010, the Company complied with the main principles and all relevant provisions of the 2008 Combined Code.[1]

In addition to this report, the Company has also prepared a corporate social responsibility (CSR) report that addresses our engagement with society in general. This is on pages 56 to 67.

## What should the Board be doing?

Your Board is responsible for promoting long-term shareholder value in a responsible manner that takes account of our various stakeholders.

We provide entrepreneurial leadership that has grown and, we believe, will continue to grow the business. To enable such continued growth, we set corporate strategy and make sure that Petrofac has appropriate financial capital and the right kind of people to deliver that strategy.

To attract and retain high calibre employees, we also seek to ensure that the Company has the right remuneration policy and, to make sure that we remain sustainable, we focus on succession planning.

We want our men and women to share our values, as well as having the correct technical expertise. This is particularly important for an international company like Petrofac, with employees drawn from more than 70 nations. Your Board works hard to set the right tone by taking responsibility for our Code of Business Conduct and for other important group policies.

Taking and managing risks are an integral part of being entrepreneurial. Nevertheless, it is vital that we know and understand the significant risks that the Company faces. Ensuring that Petrofac has an appropriate framework of internal controls and risk management is, therefore, an essential part of your Board's work.

We work to promote the success of the Company for many people but our shareholders are, of course, our principal focus. An essential part of our job, therefore, is maintaining a dialogue with shareholders.

**The Board has a formal schedule of matters reserved to it for decision, which includes:**

- setting the group's strategy
- approval to enter into contracts which are deemed to be material either strategically or by reason of size
- approval of the annual budget
- approval of major corporate transactions
- approval of major changes to the group's capital structure
- approval of key policies, such as those relating to Health, Safety, Security, Environment and Integrity Assurance (HSSEIA) and our Code of Business Conduct
- preparing the group's financial statements
- recommending or declaring a dividend
- reviewing the group's overall governance arrangements including approval of the matrix of delegated authorities
- maintaining effective internal controls and risk management
- succession planning and appointments to the Board
- setting senior executive remuneration
- reviewing the performance of the Board itself and its committees

## What did the Board do in 2010?

Having given some idea of our general responsibilities, I will now set out some of the specific things that your Board did in 2010. It is not an all encompassing list, but it does include some of the year's key highlights.

### Entrepreneurial leadership

Entrepreneurial leadership could be paraphrased as our management team putting strategy into action. This year, the Board spent significant time overseeing the demerger of the Don assets into EnQuest PLC, which represented a delivery of the 'build and harvest' strategy for Energy Developments. Also significant were the Board's approval for the Ticleni contract and our investment in Seven Energy International Limited, which saw us both move into new geographies and do so via novel commercial arrangements which we want to pursue. We also monitored the progress of the South Yoloten contract in Turkmenistan throughout 2010 and were pleased to end the year having successfully completed the conversion of its second phase.

### Setting the tone

We approved a number of policies, including our HSSEIA plan for 2010. We worked hard to develop a more strategic approach to our CSR activities. We now have a dedicated Group Head of CSR and monitored ongoing progress with two formal updates. We also spent considerable time in Risk Committee discussing our response to the Bribery Act 2010. Doubtless, such discussions will continue in 2011 particularly as the UK Government recently announced a delay in implementing the Act.

### Setting strategy

We increased the time spent on discussing and setting strategy. As well as having a dedicated day in May focused on strategy, we now spend most of our December board meeting monitoring progress in strategic delivery, with reference to our budget and five-year plans.

### Increasing effectiveness

We undertook an externally facilitated board evaluation.

### Succession planning

The quite extensive changes in the Board's composition are the culmination of more than a year's work.

### Accountability

We have started a process to ensure that we comply with the UK Code's new requirement that a board should articulate explicitly its risk appetite and determine the nature and extent of the significant risks it is prepared to take. This will complement our long established framework of internal controls and risk management.

1 A copy of the 2008 Combined Code is publicly available at www.frc.org.uk

## Who is on the Board?

As Chairman, I am responsible for leading your Board and ensuring that it operates effectively. After a relatively long period of stability, there have been a number of membership changes. As it is now almost six years since we listed, this reflects our broad policy that non-executive directors should generally serve two three-year terms.

We currently have 11 directors comprising the Chairman, six non-executive directors and four executive directors and they are listed in the table below.

| Name | Role | |
|---|---|---|
| **Rodney Chase** | Chairman | |
| **Kjell Almskog** | Senior Independent Director | |
| **Thomas Thune Andersen** | Non-executive Director | Appointed 13 May 2010 |
| **Stefano Cao** | Non-executive Director | Appointed 13 May 2010 |
| **Roxanne Decyk** | Non-executive Director | Appointed 1 March 2011 |
| **Norman Murray** | Non-executive Director | Appointed 1 March 2011 |
| **Rijnhard van Tets** | Non-executive Director | |
| **Ayman Asfari** | Group Chief Executive | |
| **Maroun Semaan** | Group Chief Operating Officer | |
| **Andy Inglis** | Chief Executive, Energy Developments and Production Solutions | Appointed 1 March 2011 |
| **Keith Roberts** | Chief Financial Officer | |

This is intended, however, to be a temporary state of affairs. After more than six years on the Board, both Kjell and I will be stepping down from the Board at the conclusion of the AGM and the Board will once again revert to nine directors.

You can find biographies of your directors on pages 68 to 70. We have made considerable efforts to build a Board with the right balance of diversity and industry expertise. Diversity is healthy as it helps guard against 'group think' and promotes constructive, challenging debate. You will see that your directors are drawn from across the world and have varied career histories with no single type of person dominating the Board. We are, however, fortunate in that our Board has directors with a great deal of experience in the oil & gas industry both in exploration and production and lump-sum contracting. This is essential if we are to safeguard the interests of shareholders.

All non-executive directors who served during 2010 and to date are independent in judgement and character. Directors are required to disclose any potential conflict to the Board for its consideration and I am not aware of any relationship or circumstance which is likely to prejudice, or could appear to prejudice, the judgement of any director.

During 2010, Bernard de Combret, Michael Press and Amjad Bseisu stepped down from the Board and I thank each of them for their respective contributions to the growth of Petrofac. Thomas Thune Andersen and Stefano Cao are proving worthy successors. This year, Roxanne Decyk, Norman Murray and Andy Inglis joined the Board and I welcome them. Norman Murray will take over as Chairman subject to shareholder approval at the AGM.

## How is the Board organised?

As a Jersey company, our Board is unitary in nature. This means that all our directors share equal responsibility for the decisions that we make. Executive and non-executive directors need to be able to work together in an atmosphere of openness, trust and mutual respect. It is therefore important that all directors see the Chairman as a fair and impartial individual. His relationship with the Group Chief Executive and the Senior Independent Director are particularly important since these two individuals represent the views of management and non-executive directors, respectively.

I hold regular private meetings with Ayman Asfari and Kjell Almskog both between and at our board meetings. I believe, therefore, that I am equally informed about the views of management and non-executive directors. This insight assists me in two ways: I am better able to set the agenda for our board meetings and I can ensure that all directors contribute at our meetings.

Both the Chairman and Group Chief Executive have clearly defined terms of reference and these are set out in writing. The split in responsibilities is shown in the table below.

| Roles | |
|---|---|
| **Chairman** | **Group Chief Executive** |
| Lead the Board | Implement strategy |
| Ensure effective communication with shareholders | Develop manageable goals and priorities |
| Ensure effective communication flows between directors | Lead and motivate the management teams |
| Facilitate the effective contribution of all directors | Develop proposals to present to the Board on all areas reserved for the Board's judgement |

Our Secretary to the Board, Mary Hitchon, makes sure that we adhere to proper process and follow applicable rules and regulations. I rely upon her to advise me on governance matters and she is also available to all other members of the Board. Furthermore, if any director wishes to take independent professional advice at the Company's expense, he or she can do so.

The Board is assisted by four committees, namely the Nominations, Audit, Risk and Remuneration Committees. Each committee is responsible for reviewing and overseeing activities within its particular terms of reference. At each face-to-face board meeting, the chairman of each committee provides a summary of any committee meeting held since the previous board meeting and the minutes of committee meetings are ordinarily circulated to the Board. Reports for 2010 from each of these committees are provided from pages 79 to 95 and copies of each committee's terms of reference are available on the Company's website. The Secretary to the Board acts as secretary to all of our committees.

**Petrofac Board**

| Nominations Committee | Audit Committee | Risk Committee | Remuneration Committee |
|---|---|---|---|
| Takes primary responsibility for succession planning and the selection process for new Board members | Monitors the integrity of the Company's financial statements and reviews financial internal controls and financial risk management systems | Oversees the group's risk management and internal control processes for non-financial matters | Agrees the remuneration policy for some members of senior management and sets individual compensation levels |

# Corporate governance report continued

### How often does the Board meet?

Our Board meets face-to-face six times per year, generally for a minimum of two days. At least two of our meetings are longer as, during our annual programme of events, we also hold a dedicated strategy day and a site visit. Committee meetings are held first followed by a full board meeting. We set the calendar two years in advance, although there have been some occasions when we have been forced to revise dates. Details of attendance by Board and committee members at such meetings in 2010 are detailed in the table below.

As well as our physical meetings, we hold a number of telephonic board meetings, generally to consider an item of business that cannot be held over until the next face-to-face meeting.

| | Board | Nominations Committee | Audit Committee | Risk Committee | Remuneration Committee |
|---|---|---|---|---|---|
| **Meetings held in 2010** | **6** | **5** | **3** | **3** | **4** |
| **Rodney Chase**<br>Non-executive Chairman | 6 (6) | 5 (5) | – | – | – |
| **Kjell Almskog**<br>Senior Independent Director | 6 (6) | 5 (5) | 3 (3) | 3 (3) | 3 (3) |
| **Thomas Thune Andersen**[1]<br>Non-executive Director | 3 (3) | 3 (3) | 2 (2) | – | 3 (3) |
| **Stefano Cao**[1]<br>Non-executive Director | 3 (3) | 3 (3) | – | 1 (1) | 3 (3) |
| **Rijnhard van Tets**[2]<br>Non-executive Director | 5 (6) | 3 (3) | 3 (3) | 3 (3) | 1 (1) |
| **Ayman Asfari**<br>Group Chief Executive | 6 (6) | 5 (5) | – | – | – |
| **Maroun Semaan**<br>Group Chief Operating Officer | 6 (6) | – | – | – | – |
| **Keith Roberts**<br>Chief Financial Officer | 6 (6) | – | – | – | – |
| Former Directors | | | | | |
| **Amjad Bseisu**[3]<br>Chief Executive, Energy Developments | 2 (2) | – | – | – | – |
| **Bernard de Combret**[4]<br>Non-executive Director | 3 (3) | 2 (2) | – | 2 (2) | 1 (1) |
| **Michael Press**[4]<br>Non-executive Director | 3 (3) | 2 (2) | 1 (1) | 2 (2) | 1 (1) |

Figures in brackets denote the maximum number of meetings that could have been attended
1 From 13 May 2010
2 Rijnhard van Tets was unable to attend one board meeting due to a previous engagement
3 To 4 April 2010
4 To 13 May 2010

### Where does the Board meet?

We hold our board meetings at a variety of locations across the globe. Nevertheless, we make sure that we always hold at least one meeting each year in Jersey, our place of incorporation. In addition, we hold one meeting each year in Sharjah as this is the location of our biggest office and the centre of our Engineering & Construction business. While in Sharjah, the Board takes the opportunity to meet around 50 members of our Sharjah management team over an informal dinner.

We also make sure that the Board holds one meeting where Petrofac has business. In October 2010, we visited both Singapore and Malaysia. In Singapore, we visited our training centre, where the Managing Director of Training Services and its local management team updated the Board on progress in relation to strategy for the business globally and for Singapore. We also met customers who use the training centre and had lunch with employees. In Malaysia, we met representatives of PETRONAS and other local partners over dinner before holding our board meeting the following day in our Kuala Lumpur office. Our board meetings not only allow us to consider formal business, they also help us to really get to know Petrofac, its people and its customers.

### Who attends board meetings?

As well as directors and the Secretary to the Board, we have regular guests from operational and functional management. In 2010, Marwan Chedid, Gordon East, Rob Jewkes and Richard Milne, all members of senior management, whose biographies are provided on pages 50 and 51, attended part or all of at least one meeting. Several other members of operational management, one or two tiers below managing director level, also attended meetings. We also had regular updates from the functional heads of HSSEIA, human resources, strategy and CSR. We consider that this regular exposure to our senior management is beneficial. It helps directors get to know the Company and its senior management better and it makes for more effective board meetings that, whilst always professional, are nevertheless lively and engaging.

### What is the selection process for the Board?

We have a formal, rigorous and transparent selection procedure for the appointment of directors.

The Nominations Committee is responsible for recommending a director to the full Board. The full Board, with the exception of the existing Chairman, takes responsibility for considering the appointment of a new Chairman.

For an executive appointment to the Board, the Nominations Committee will consider whether an individual is able to contribute both as an executive and at Board level. The Committee will assure itself that the individual will be able to think strategically and consider his or her responsibilities in relation to internal controls and risk management.

Individuals need to have sufficient time to give to our Board. Care is taken to establish the existing commitments of all prospective non-executive directors, particularly the Chairman. Individuals are required to let the Board know if their commitments change after appointment. There is a detailed report on the activities of the Nominations Committee on page 79.

### How do we decide what directors are paid?

The Remuneration Committee is responsible for determining the remuneration and terms of employment of executive directors and some members of senior management. It is also responsible for determining the Chairman's fee. A detailed report on the activities of the Remuneration Committee is provided on pages 84 to 95. Executive directors effectively determine the fees of non-executive directors since this responsibility lies with the Board as a whole, excluding those directors whose fees are being determined.

### What is our approach to shareholders re-electing directors?

In the past we followed the accepted convention that one third of our directors, generally the longest serving members of the Board, submit themselves for re-election at the AGM. The UK Code states, however, that all directors should submit themselves for re-election every year. There has been some ambiguity as to whether companies should seek to adopt the new recommendation in 2011 or 2012. Your Board has concluded that it would offer shareholders the opportunity to re-elect all directors at our 2011 AGM.

### How do we get the best out of the Board?

It is important that we get the best out of our board meetings. We invest considerable time, effort and expense in arranging meetings so it is important that directors are able to make the best possible contribution. We believe that the following aspects of support for directors are essential:

- board papers
- Secretary to the Board
- induction
- training
- evaluation

#### Board papers

It is essential that board papers are well written and relevant. They should be dispatched in a timely manner so all directors have adequate time to read them. Our papers are generally of a high standard and for our face-to-face meetings are dispatched in hard copy format to directors one week before a board meeting. This is important given that our directors are based around the world. When we hold a telephonic board meeting, the Secretary to the Board ensures that papers are circulated electronically, generally at least 24 hours before the meeting.

#### Secretary to the Board

It is important that Board members, particularly our non-executive directors, have a principal point of contact within the organisation. The non-executive directors receive a great deal of support from various individuals within Petrofac, particularly at committee level, and are encouraged to contact individuals directly if they wish. We do, however, have a highly capable Secretary to the Board whom we may approach for general support and advice, or when we do not know whom to contact on a particular matter. She ensures that we receive appropriate information, as and when appropriate, and this extends far beyond dispatching board papers or writing minutes.

# Corporate governance report continued

## Induction

Recent governance developments emphasise the importance of directors receiving an appropriate induction and ongoing training. In 2010, in liaison with Ayman Asfari and Maroun Semaan and with the help of the Secretary to the Board, I created induction programmes for our newly appointed non-executive directors Thomas Thune Andersen and Stefano Cao.

| | |
|---|---|
| **Visits** | Visits to our Sharjah, Mumbai, London, Woking and Aberdeen offices to meet our managing directors and many of their direct reports |
| **Meetings** | Meetings with functional heads, such as our Director of Legal and Commercial Affairs, Group Heads of HSSEIA, Human Resources, Internal Audit, Tax Communications and CSR, Head of Enterprise Risk Management and Group Financial Controller |
| **Seminars** | An individually-tailored seminar, led by the Secretary to the Board and a partner from our legal advisers, Freshfields, on the role and responsibility of a director of a UK-listed entity<br><br>A seminar, led by a partner from the remuneration consultants, Deloitte LLP, on the role and responsibility of the Remuneration Committee |

To ensure that time was spent constructively and conversations could focus on key topics, we encouraged all employees who met the directors to prepare a presentation.

We are currently in the process of developing and delivering tailored induction programmes for Roxanne Decyk, Norman Murray and Andy Inglis.

## Training

The Chairman is responsible for the training needs of all directors, under the UK Code.

Whereas we have traditionally provided regular technical training updates during committee meetings, we are now developing a series of more formal seminars. These will be held outside committee meetings so that the topics under review can receive more time and focus and will be individually tailored for Petrofac. At least some of the seminars will be led by external advisers. We have always supported directors who wish to attend external seminars run by professional advisers and we will continue to do so.

Despite such general support, we have not always tracked the full extent of director training. Going forward, the Secretary to the Board will record all formal training undertaken by directors, both internally and externally. This will enable the Chairman to assess whether any Board members need additional training support.

## Evaluation

ICSA Board Evaluation led a very helpful evaluation of our Board during the year. Each director was interviewed individually, on a confidential basis, by the same ICSA representative and asked for his views on topics relating to the Board's performance. In addition, ICSA observers, including the interviewer, attended a board meeting. ICSA presented a report of recommendations to the Board, after which directors were invited to comment. The Secretary to the Board and I subsequently worked together to place the recommendations within the broader context of a board's responsibilities. We then discussed the Board's performance at a further board meeting and agreed that we could be more effective by:

| | |
|---|---|
| **Strategic discussion** | Increasing the amount of time we spend on strategic discussion. We now have not only a dedicated strategy day in May but a further half day in December. In May we engage in 'blue sky thinking' and in December we monitor progress against strategy, by reference to the group's budget for the forthcoming year and our five-year plans. In addition, we have agreed a programme of 'deep dive' presentations to the Board on specific strategic matters |
| **Risk appetite** | Seeking to articulate better our risk appetite and significant risks |
| **Succession planning** | Increasing our focus on succession planning by ensuring the issue is regularly included on the Nominations Committee agenda |
| **Delegated authorities** | Revisiting our matrix of delegated authorities so that the Board best uses the finite amount of time available to it. The group has grown extensively over recent years and it is no longer appropriate for the Board to consider certain matters which it considered in the past |

These items are all work in progress with some more developed than others, as one would expect following a meaningful evaluation. Although we are required to conduct an annual appraisal the reality is that a board should always be seeking to improve its performance.

As in previous years, my appraisal was conducted by Michael Press, our then Senior Independent Director. Michael did this through a series of questionnaire led interviews with directors before meeting with me to present feedback.

### How does the Board formally satisfy itself that it has sound risk management?

The Board is responsible for reviewing the effectiveness of Petrofac's risk management and internal control systems, including financial, operational and compliance controls.

This year we decided that our annual review would be conducted by the full Board. In previous years, we relied upon the Audit Committee to conduct a review of our internal controls. We decided that this approach was no longer appropriate, given the increasing amount of work being done by the Risk Committee. At present the Audit Committee concentrates on financial internal controls and the Risk Committee focuses on operational controls. The combined work of the two committees provided the basis of a formal report to the full Board, after which we concluded that the group maintained a sound risk management and internal control framework.

As with all companies, our system of internal control and risk management can only ever provide reasonable, and not absolute, assurance against material misstatement or loss.

### What is our reference for satisfying ourselves that we have a sound risk management system?

We look to the revised Turnbull guidance, which was published by the FRC in 2005. This is a principles based approach that requires your Board to be thoughtful about how best to discharge its obligations. Turnbull suggests that boards consider four broad themes when attempting to assess the internal control and risk management framework:

- do you know and understand your significant risks?
- how do you monitor your internal controls and risk management system?
- is your Board receiving information which allows it to identify when delivery of its goals are under threat?
- what is your general control environment like?

The UK Code provides more explicit guidance than the old Combined Code in relation to significant risks. It states that a board should determine the nature and extent of the significant risks it is willing to take in order to achieve its strategic objectives. The change in emphasis means that going forward a board should be proactively articulating a company's risk appetite rather than being satisfied with simply identifying and managing significant risks. We are currently reviewing our processes to meet the requirements of the UK Code more effectively.

### How does the Board identify Petrofac's significant risks?

Our Head of Enterprise Risk Management provides the Board with a written report before each board meeting giving details of our current significant risks and how we plan to mitigate them. The risks that we consider significant today are shown on pages 30 to 35.

Our Head of Enterprise Risk Management drafts his report by reference to:

- risk matrices he receives from each of our individual business units (bottom up approach)
- the work of the Enterprise Risk Committee which is chaired by the Group Chief Operating Officer (top down)

### How do we intend to respond to changes in the UK Code regarding risk management?

Your Board established a Risk Committee in 2007, with the remit to oversee the group's framework of operational internal controls and risk management systems. As reported last year, the Committee approved three group policies, as shown in the table below. These policies were reviewed during the course of the year and revised as appropriate. The Committee considers performance against each policy at least once a year. Through the policies, we feel that the Committee goes a long way to articulating the Company's risk appetite and we will continue to build on this work.

| Policy | Articulates our attitude to risks related to: |
|---|---|
| Sovereign and Financial Market Risk Policy | country, inflation, commodity, currency, credit and counterparty |
| Ethical, Social and Regulatory Risk Policy | ethics, contractual liability, non-compliance with a country's local laws and regulations |
| Operational and Contractual Risk Policy | project performance, business continuity, leadership change and HSSEIA |

### How does Petrofac monitor its internal control and risk management system?

Each of our business units has its own business management system that incorporates policies and procedures that assist with the business units' risk management. In addition, each business unit produces its own risk matrix or register. Each business unit's management team meets regularly and monitors the risk matrix as a matter of course. They note any change in risk assessment at an individual and aggregate level and seek to take appropriate mitigating action should they believe it necessary. The risk matrices for each business are formally reviewed each month by the following individuals:

- **Ayman Asfari**, Group Chief Executive
- **Maroun Semaan**, Group Chief Operating Officer
- **Keith Roberts**, Chief Financial Officer
- **Richard Milne**, Group Director of Legal & Commercial Affairs
- **Paul Green**, Head of Enterprise Risk Management

If a situation occurs which local management judges to be serious, it will be reported up the chain of command immediately.

We have a group internal audit department. The Audit Committee approves its audit universe and its annual plan of audits and the Group Head of Internal Audit attends all Audit Committee meetings, when he reports on any significant findings in relation to our internal controls. The Group Head of Internal Audit would report any serious weakness or lapse in internal controls, including evidence of fraud, to the chairman of the Audit Committee upon discovery. As customary with an organisation of our size, we rely upon self-assessment by employees to some extent. All senior managers and selected employees are required to provide an annual assurance that they have complied with the group's Code of Business Conduct during the year.

### Does the Board receive information which allows it to identify when delivery of its goals are under threat?

The Board receives a comprehensive written report from Keith Roberts, the Chief Financial Officer, at each face-to-face board meeting as well as periodic updates between such meetings. The Board is kept very well informed about the group's financial performance for the year to date compared to the year's budget or the latest revised forecast. Explanations for variances are provided. The budget and five-year plans provided by management for the Board's review incorporate risk analysis as a matter of course. Over the years this analysis has increased in sophistication and will doubtless continue to do so.

Of course, in addition to financial goals, we have strategic and operational goals. Ayman Asfari provides us with a full presentation on business operations at each face-to-face board meeting, during which he highlights possible impediments to the delivery of our goals.

### What does Petrofac's general control environment look like?

This is quite hard to define but easier to recognise. To do so, it is worth asking such questions as:

- does the Company seem well run with processes that employees know about and adhere to?
- do employees understand the minimum behaviour expected of them and conversely what will not be tolerated?
- are there processes in place that allow employees to report something that they consider to be untoward?
- is the culture one that encourages openness?
- does management make efforts to find out what employees think and feel about the organisation?

# Corporate governance report continued

Petrofac has made great efforts to build the foundations for a control environment that does all of these things. The table below shows some of our more significant achievements.

| | |
|---|---|
| **Our people** | We recruited a Group Head of Human Resources two years ago and are increasingly seeing the benefits of having a global approach to HR. Having the right kind of people is key; we need to be able to recruit people who will thrive here and, equally, to develop our existing employees |
| **Our Code of Business Conduct** | All of our employees are provided with our Code of Business Conduct and some 6,000 employees have now completed the related e-learning module |
| **Our 'Speaking Up' facility** | All employees have the ability to contact, in confidence, an independent third party called Expolink if they believe that the Code of Business Conduct has been breached. We investigate all matters brought to our attention and the Audit Committee is provided with regular retrospective reports |
| **Our matrix of delegated authorities** | We have defined lines of responsibility and delegation of authority throughout the group. Our matrix sets out those matters which are judged to require Board sanction. Examples include:<br>▪ doing business in high risk locations<br>▪ entering into a new contract above a certain financial size<br>▪ investing in a project which puts a significant level of capital at risk<br>The matrix also sets out those matters which are delegated to management. Management is assisted in deciding whether or not to undertake any new business through a series of risk review committees |
| **Other policies** | HSSEIA, Disclosure and Communications, Share Dealing Code, Conflicts and, as already detailed, our group risk policies reviewed by the Risk Committee |

We are not complacent and know we always have further work to do but, nevertheless, we are pleased with what has been achieved to date.

### How does the Board make sure that it is aware of its shareholders' views?

Ayman Asfari, Keith Roberts and Jonathan Low, our Head of Investor Relations, provide a presentation to research analysts, including a question and answer session, following the announcement of our full year and half year results. This is broadcast live on our website and may therefore be followed by all shareholders. Ayman, Keith and Jonathan also conduct a series of individual meetings with existing and potential shareholders in the week following our full year and half year results.

Ayman and Keith are therefore well placed to provide the rest of the Board with their insights into shareholder sentiment. Directors also receive brokers' research notes from Jonathan.

We have also established an annual practice of offering analysts and some institutional shareholders the opportunity to visit at least one of our operations. In October 2010, we took a group of analysts and investors to Syria where they visited two E&C projects, the Ebla and Jihar gas plants, and the National Training Centre in Homs.

We write to our major shareholders annually offering them the opportunity to meet me or the Senior Independent Director. This year both Thomas Thune Andersen, in his capacity as chairman of the Remuneration Committee, and I met some of our major shareholders.

All shareholders receive hard copies of our Annual Report and Accounts and half year reviews: these, and all announcements we make to the market, may also be downloaded from our website.

### Who are our major shareholders?

Those shareholders with holdings of 3% or more as at 25 February 2011 are as follows:

| | Number of ordinary shares | Percentage of issued share capital |
|---|---|---|
| Ayman Asfari and family | 62,782,114 | 18.16% |
| Maroun Semaan and family | 28,082,676 | 8.12% |
| Legal & General Group Plc | 12,605,890 | 3.64% |

Our Articles of Association have been drafted so that any shareholder with 3% or more of our voting rights must disclose its holding. This brings us in line with UK incorporated companies. Ordinarily shareholders of Jersey incorporated companies with a UK listing need only disclose their holdings if they hold voting rights of 5% or more in a company.

### Additional information for shareholders

The Company's constitution by which the Company is governed is called the Company's Articles of Association. These can only be changed by shareholders in general meeting by way of special resolution. This year we are proposing some minor changes to our Articles and you can see further details outlined in our Notice of AGM.

### Our AGM

We hold our AGM in London as we believe that this is the best location for the majority of our shareholders. We spend time and effort to try to ensure that shareholders find the event worthwhile.

Details of this year's AGM are set out in the Notice of AGM which accompanies the Annual Report and Accounts. As a matter of good practice, we will conduct all resolutions on a poll and announce the results to the market as soon as possible after the meeting.

I look forward to seeing as many of you as possible this year when my colleagues and I will be available to answer your questions.

Rodney Chase
Chairman of the Board
4 March 2011

# Nominations Committee report

### Role of the Committee

- Regularly reviews the Board composition and structure
- Considers succession planning for directors and other senior executives
- Identifies and recommends candidates to be appointed to the Board

### Membership

| | |
|---|---|
| **Now** | Rodney Chase (Chairman) |
| | Ayman Asfari |
| | Kjell Almskog |
| | Thomas Thune Andersen |
| | Stefano Cao |
| | Rijnhard van Tets |
| **After AGM** | Norman Murray (Chairman) |
| | Ayman Asfari |
| | Thomas Thune Andersen |
| | Stefano Cao |
| | Roxanne Decyk |
| | Rijnhard van Tets |

Dear shareholder

This year proved to be a particularly busy one for the Nominations Committee. At the start of 2010 the Committee agreed that it would initiate a search for a new Chairman, as I have now served for six years. Our Senior Independent Director led the process and having agreed a job and person specification, appointed search consultants Egon Zehnder International to assist. I am delighted that this resulted in Norman Murray joining our Board at the start of March with a view to him taking on the role of Chairman when I step down at the conclusion of our AGM.

Kjell Almskog, our Senior Independent Director, is also stepping down from the Board at the same time. We therefore appointed Egon Zehnder International to conduct a second search for a non-executive director. Roxanne Decyk consequently joined our Board at the same time as Norman. I am confident that Norman will lead the Board well and that he and Roxanne will make strong individual contributions. They both have oil & gas experience but have also spent time in other industries, which will enrich the Board's debate. I have greatly enjoyed serving on this Board and I am sure that they will too.

Ayman Asfari led Energy Developments and Production Solutions on an interim basis throughout 2010. We were delighted when an extensive search resulted in Andy Inglis being appointed Chief Executive of Energy Developments and Production Solutions at the start of this year. The Committee recommended that Andy be appointed a director to the Board and he joined the Board in early March. He not only leads a substantial part of our group but has extensive boardroom experience.

In view of the changes to the Board, the Committee considered the membership of the Board's committees after the AGM and who should assume the role of Senior Independent Director after Kjell's retirement. The Board agreed the Committee's recommendations on the composition of the various committees and on Rijnhard van Tets being appointed Senior Independent Director. Rijnhard will be our longest serving non-executive director in May and will, I am sure, fulfil the role of Senior Independent Director admirably.

In making these changes, the Committee had due regard to the Board's overall size and composition.

We also considered succession planning more widely and will look at this aspect of our responsibilities in greater detail going forward since it is such an important element of ensuring that our business is sustainable.

On more prosaic matters, we reviewed and revised our terms of reference so that they continue to conform with best practice.

In summary, I believe that your Board has the right people to lead the Company in 2011 and beyond.

Rodney Chase
Chairman of the Nominations Committee
4 March 2011

# Audit Committee report

### Role of the Committee

- Monitors the integrity of the Company's financial statements and reviews significant financial reporting judgements
- Reviews internal control and risk management systems of a financial nature
- Monitors the effectiveness of the group's internal audit function and reviews its material findings
- Oversees the relationship with the external auditors including agreeing their fee and assessing their independence and effectiveness

### Membership

| | |
|---|---|
| **Now** | Rijnhard van Tets (Chairman) |
| | Kjell Almskog |
| | Thomas Thune Andersen |
| **After AGM** | Rijnhard van Tets (Chairman) |
| | Thomas Thune Andersen |
| | Roxanne Decyk |

Dear shareholder

It was very much business as usual for the Audit Committee in 2010. Our calendar of meetings is now well established and is largely driven by our programme of communications to the market. A more detailed description of the Committee's activities is provided later but in summary the Committee considered the group's full and half year results and formally reviewed the effectiveness of Petrofac's internal control and risk management systems. I wish to thank my colleague Kjell Almskog who is stepping down from the Board shortly. He has provided invaluable support to the Committee over the last few years. Roxanne Decyk will join the Audit Committee in May and I look forward to working with her.

The events of 2008 and thereafter have resulted in a great deal of debate about risk management and sound internal controls. Investors increasingly want to know whether or not a board has a real grasp of the risks facing the enterprise and if there are effective safeguards in place to mitigate them. The Audit Committee has always worked closely with the Risk Committee in order to provide appropriate assurance to our Board and, in line with best practice, I also serve on the Risk Committee. To date the Audit Committee has concentrated on financial internal controls and the Risk Committee on operational risks. While this approach has served us well, the Board agreed at the end of 2010 that the group's increasing size and complexity meant that we should revisit the committees' interface to ensure we have the best possible framework for understanding and managing our risks be they financial, operational or compliance related. The Company has now appointed a Group Head of Compliance and his appointment will doubtless influence our deliberations as we develop our future approach to assurance on all our internal controls.

The UK Code emphasises the need for directors to keep on top of technical developments, which is particularly pertinent for the Audit Committee. We intend to hold a series of dedicated seminars before our meetings in 2011, focusing on changes to accounting standards that will specifically affect Petrofac. I have recent and relevant financial experience of course, but it is important to keep that experience up to date.

Rijnhard van Tets
Chairman of the Audit Committee
4 March 2011

## Financial reporting

As set out in our Directors' Statements on page 96 directors are responsible for preparing group financial statements in accordance with International Financial Reporting Standards. The group has an internal control and risk management framework in place which permits the Company to prepare consolidated accounts and this includes policies and procedures to ensure that adequate accounting records are maintained and transactions accurately recorded.

In 2010, the Committee reviewed the 2009 Report and Accounts and 2010 half year results. Furthermore, in March 2011 we of course reviewed the 2010 Report and Accounts and you are reading these now. As part of these reviews, we discussed with Keith Roberts and the external auditors the significant accounting policies, estimates and judgements that had been adopted.

## Internal controls and risk management systems

The Committee reviewed the group's internal controls primarily through its engagement with our internal audit function and the Risk Committee. Our Group Head of Internal Audit, Ajit Nair, attends each committee meeting. At the start of the year the Committee agrees the annual internal audit plan, which is drawn up on a risk-based approach. Any significant findings from internal control audits undertaken have been appropriately followed up and the necessary actions taken to address any weaknesses found. Ajit provides a progress report part way through the year, as a consequence of which his plan may be revised, and a final report at the end of the year.

In 2010, the internal audit department completed 85 assignments across a broad cross-section of the group's activities. Rijnhard van Tets and Kjell Almskog served on both the Audit and Risk Committees during the year and therefore had oversight of the Risk Committee's work in relation to operational controls. In addition, the Committee receives regular reports detailing matters reported by employees under our 'Speaking Up' or whistle-blowing process.

## Effectiveness of group internal audit and external auditors

The Committee formally assessed the performance of our internal auditors and the external auditors, Ernst & Young LLP, and judged that both were effective. In making its assessment of the external auditors, the Committee had due regard to their expertise, resourcing and independence.

## Non-audit services policy

We have a non-audit services policy that sets out under what circumstances we may appoint our external auditors to undertake additional non-audit work. This is reviewed by the Committee each year. Our policy, which remained unchanged from last year, is summarised below:

- the external auditors are automatically prohibited from carrying out work which might impair their objectivity
- Keith Roberts, as Chief Financial Officer, will seek approval from the Committee before appointing the external auditors to carry out a piece of non-audit work:
  - if the fee is above US$200,000
  - if total non-audit fees for the year are approaching 50% of the annual audit fee
  - if the external auditors would ordinarily be prohibited from carrying out the work, but the Chief Financial Officer wants to appoint them due to exceptional circumstances
- the Chief Financial Officer may appoint the external auditors to do all types of other work

Details of non-audit work carried out by Ernst & Young LLP during 2010 are provided in note 4e to the financial statements.

# Risk Committee report

### Role of the Committee

- Reviews group risk policy and procedures
- Oversees group operational risk management systems, including insurance provision
- Ensures effective monitoring of the group's internal controls and risk management

### Membership

| | |
|---|---|
| **Now** | Stefano Cao (Chairman) |
| | Kjell Almskog |
| | Rijnhard van Tets |
| **After AGM** | Stefano Cao (Chairman) |
| | Roxanne Decyk |
| | Rijnhard van Tets |

Dear shareholder

I took over the role of chairman of the Risk Committee in May. I would like to thank my predecessor Kjell Almskog for his efforts: he has left me with a solid foundation on which to build.

The Walker Report emphasised the importance of a risk committee and, while the report's focus was directed at banks and financial institutions, it has influenced the wider corporate community. In this day and age it is unrealistic to think that the Audit Committee of a company the size of Petrofac can take sole responsibility for oversight of financial, operational and compliance internal controls. The workload would be excessive. Both committees will work independently but in a complementary way.

Having had more than 30 years' experience in the oil & gas industry, both within E&P and lump-sum contracting, I believe that I can add real value to the Risk Committee's work in relation to oversight of operational controls.

I am very fortunate to be joined on the Committee by Rijnhard van Tets and Roxanne Decyk. Rijnhard brings extensive banking experience, which is particularly useful when considering sovereign and financial market risks. Roxanne has enjoyed a varied executive career that culminated in over ten years at Shell, where she was most recently head of government affairs. I am sure that this experience will help her provide useful insights and advice on ethical and regulatory matters. In short, I believe that our committee is well placed to help the group continue to deepen its non-financial internal control processes.

The Committee is supported by the Head of Enterprise Risk Management and Maroun Semaan, Keith Roberts and Richard Milne attend meetings as a matter of course. In addition the Group Treasurer and the Head of Insurance and the Group Head of Security have also made presentations to the Committee. In this way, we ensure that our discussions are as worthwhile as possible.

This year, as well as reviewing the three Petrofac policies that cover non-financial controls, we also devoted one meeting to considering the implications of the UK Bribery Act. Other areas of emphasis were the group's insurance cover, business continuity planning, and security, particularly in relation to new country entry.

Stefano Cao
Chairman of the Risk Committee
4 March 2011

The group's overall risk management framework including details of the key risks facing the business is described on pages 32 to 35.

### Review of policies

During the year the Committee reviewed the following policies:

- Sovereign and Financial Market Risk Policy
- Ethical, Social and Regulatory Risk Policy
- Operational and Contractual Risk Policy

Further detail about the areas covered by each of the policies is set out in a table on page 77. Our reviews consider whether policies require amending and assurance that they are being adhered to across the group.

### UK Bribery Act

The UK passed a Bribery Act in 2010 that is scheduled to come into force in 2011 although later than originally planned. The Act modernises and consolidates existing UK law on bribery and corruption. In particular, the Act creates a new corporate offence of failing to prevent bribery. Our Code of Business Conduct is clear; Petrofac does not permit the giving or receiving of bribes. Nevertheless, we have to ensure that we have adequate procedures in place which are designed to prevent bribery. We have therefore spent considerable effort reviewing and amending our processes. We will be supporting the roll out of our new processes with an extensive education programme across the group.

### New country entry procedures

The risks associated with doing business in a new country are greater than those associated with a country which we know well. We have therefore spent time reviewing our processes and intend to continue to refine them during 2011.

### Security

Security comes under the remit of our HSSEIA department. In 2010, our Group Head of Security gave a presentation to the Committee on group security processes. He covered both our approach to security in geographies where we are already established and also how we seek to ensure the security of our people when we are entering a new country. He focused on Iraq and Turkmenistan as these are countries where we will be working in 2011 and beyond.

### Business continuity

We have now largely completed our business continuity planning for the group. We are pleased that in 2010 the Aberdeen office was awarded BS 25999 accreditation. Our Woking office has held this accreditation since 2009.

### Insurance

Insurance will always be an essential part of risk transference for any organisation and we provide regular updates to the Committee.

# Directors' remuneration report

### Membership

| | |
|---|---|
| **Prior to the 2010 AGM** | Bernard de Combret (Chairman)<br>Michael Press<br>Rijnhard van Tets |
| **Between the 2010 and 2011 AGMs** | Thomas Thune Andersen (Chairman)<br>Kjell Almskog<br>Stefano Cao |
| **After the 2011 AGM** | Thomas Thune Andersen (Chairman)<br>Stefano Cao<br>Roxanne Decyk |

## Dear shareholder

I am delighted to have become chairman of Petrofac's Remuneration Committee during another year of exceptional performance, with strong growth across all our KPIs including revenue, earnings and backlog, as well as the successful demerger of the UK Continental Shelf assets from our Energy Developments business in April 2010.

Our remuneration policy is geared towards having a significant proportion of reward linked to the continued success of the business. As such, our policy is for basic salaries to be at median or below, with variable pay structured to allow executive directors to achieve upper quartile total remuneration if outstanding performance is achieved.

We believe this approach will allow Petrofac to attract, retain and motivate high calibre individuals with the skills and capabilities to match our ambitions for continued growth and sustained success.

Accordingly, as previously advised, the Committee reviewed executive remuneration during the year in the context of Petrofac's exceptional performance to date. Our review showed that basic salary levels continued to be appreciably below industry benchmarks and below lower quartile compared to UK companies of similar size. Total remuneration levels remained below market even after last year's changes to performance related pay. This gap continued to widen due to Petrofac's sustained strong growth.

Therefore, after careful consideration and consultation with major shareholders, the Committee has made an exceptional adjustment to executive director basic salaries for 2011. In line with our remuneration policy, basic salaries are still positioned at or below median.

In addition, we have made a relatively modest increase to the cash allowances for UK-based directors (which are paid in lieu of pension and company car provision).

These changes will assist us in securing the key talent that is critical to the continuing success of the business. Indeed, in January 2011, we were able to announce the appointment of Andy Inglis as Chief Executive, Energy Developments and Production Solutions, whose remuneration package is given on page 92.

The Committee is also proposing to make a minor administrative amendment to the Deferred Bonus Share Plan to extend participation to employees in certain Petrofac joint venture organisations, where appropriate. Further details are outlined on page 90. Shareholder approval for this amendment will be sought at the forthcoming AGM.

The Committee believes that these changes are in the best interests of shareholders.

Thomas Thune Andersen
Chairman of the Remuneration Committee
4 March 2011

### Introduction
This report has been prepared in accordance with Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 of the United Kingdom and relevant listing rules of the Financial Services Authority. The Remuneration Committee takes responsibility for the preparation of the report, which is approved by the Board.

This report sets out the remuneration policy and principles under which directors and senior managers are rewarded, and details the remuneration and share interests of each director for the year ended 31 December 2010.

Shareholders will be invited to approve this report at the Annual General Meeting (AGM). This vote will cover the remuneration policy and overall remuneration packages and will not be specific to individual levels of remuneration. The vote on the resolution will have advisory status only. The members of the Remuneration Committee will be available at the AGM to answer shareholders' questions about directors' remuneration.

The sections of this report dealing with directors' emoluments and share interests have been audited (pages 93 to 95) by the group's external auditors.

The Board and the Remuneration Committee consider that, throughout 2010 and up to the date of this report, the Company has complied with the provisions of the 2008 Combined Code relating to directors' remuneration.

## Information not subject to audit

### Role of the Remuneration Committee
The Remuneration Committee's main tasks are to:

- recommend and agree with the Board the framework or broad policy for the remuneration of executive directors, the Chairman and certain senior managers
- review the ongoing appropriateness and relevance of the remuneration policy
- ensure that incentives are appropriate to encourage enhanced performance
- approve the design of, and set the targets for, any performance related pay scheme
- review the design of all share incentive plans before approval by the Board and shareholders and monitor the application of the rules of such schemes and the overall aggregate amount of the awards
- set the remuneration of all executive directors, certain senior managers and the Chairman within the agreed policy, taking into account remuneration trends across the Company and remuneration practices in other peer companies

### Attendance
Attendance at Committee meetings is shown on page 74 in the corporate governance report.

### What did the Committee do in 2010?

| Regular items | Other items |
|---|---|
| ▪ consideration of 2010 salary increases and prior year bonus and provisional Performance Share Plan (PSP) award levels for the year<br>▪ approval of 2010 PSP structure and performance conditions<br>▪ consideration of 2009 and 2010 bonus pools across the wider workforce<br>▪ update on performance for subsisting PSP awards<br>▪ approval of Remuneration Report<br>▪ confirmation of vesting status of 2007 PSP awards<br>▪ approval of 2010 Deferred Bonus Share Plan (DBSP) awards under the annual bonus award cycle<br>▪ approval of 2010 PSP awards<br>▪ review of provisional 2010 annual bonus pools<br>▪ review of Restricted Share Plan (RSP) awards made during 2010<br>▪ review of market positioning and consideration of proposed 2011 increases to basic salaries and cash allowances | ▪ consideration of feedback from shareholders on the remuneration proposals for 2010 and confirmation of 2010 salaries<br>▪ consideration of implications of the demerger on subsisting awards under the Company's share plans<br>▪ shareholder consultation in relation to proposed 2011 salary increases<br>▪ consideration of DBSP amendments to allow participation of joint venture employees where appropriate |

# Directors' remuneration report continued

### Support for the Committee

The Committee has appointed Deloitte LLP to provide independent advice on remuneration matters. During 2010, Deloitte LLP did not provide any other advice to the Company. The Committee also received support during 2010 from legal advisers Norton Rose and Freshfields. During 2010, Freshfields acted as corporate lawyers to the Company and Norton Rose provided advice on certain matters relating to compensation and benefits.

During 2010, the following individuals, none of whom were Committee members, attended at least part of one meeting:

| Individual | Role | Reason for attendance |
|---|---|---|
| Carol Arrowsmith | Partner at Deloitte LLP | Adviser |
| Ayman Asfari | Group Chief Executive | To provide context for matters under discussion |
| Geoff Tranfield | Group Head of HR | To provide context for matters under discussion |
| Richard Milne | Director of Legal and Commercial Affairs | Advice on demerger |
| Mary Hitchon | Secretary to the Committee | Secretary |

None of the above attended part of any meeting in which their own remuneration was discussed.

### Remuneration policy – executive directors

The Committee aims to establish a level of remuneration which:

- is sufficient to attract, retain and motivate executive directors and key executives of the calibre required to achieve the group's objectives
- reflects the size and complexity of the group's business together with an executive's individual contribution and geographical location

In 2007, the Committee agreed that its remuneration policy for executive directors and certain senior managers would be as follows:

- basic salaries would be median or below, against a relevant benchmarking group (see below)
- the variable elements of remuneration would be structured so that individuals could achieve upper quartile total remuneration, subject to achievement of challenging performance standards

The Committee believes that this policy will ensure that executive directors and senior managers are incentivised to deliver the group's strategic goals and long-term shareholder value.

Annual bonus targets relate to the delivery of short-term targets that the Committee considers are critical drivers of business growth and delivery of performance. In contrast, the PSP objectives reward long-term shareholder value creation and strong bottom-line performance.

The Committee believes that the most appropriate pay comparators are:

- for the Group Chief Executive and certain operational executives, a select group of international and UK oil & gas services companies (to the extent that data in relation to such companies is publicly available)
- for certain functional executives, FTSE companies of a similar size and complexity

The Committee also uses remuneration in UK companies of a similar size and complexity as a reference point when considering the remuneration of operational executive directors and senior managers.

### Summary of remuneration elements – policy

| *Fixed pay* | |
|---|---|
| Salary | ▪ based on role and contribution – market median or below |
| Cash allowance | ▪ annual cash allowance in lieu of pension and company car contributions<br>▪ market standard for role and geographic location, although current levels are below median |
| Pension | ▪ Petrofac does not provide any formal pension arrangements for executive directors |

| *Variable pay* | Quantum | Performance conditions |
|---|---|---|
| Annual bonus | ▪ maximum cash award of 200% of salary | ▪ subject to achievement of financial, safety and personal performance targets |
| Performance Share Plan | ▪ maximum award of 200% of salary (300% in exceptional circumstances) | ▪ awards vest after three years, subject to achievement of performance conditions<br>▪ 50% of awards are subject to total shareholder return (TSR) relative to an international peer group on an index TSR basis:<br>– 0% vesting below index<br>– 30% vesting for performance equal to the index<br>– 100% vesting for outperformance of the index by 25%<br>▪ 50% of awards are subject to an achievement of compound annual growth in earnings per share (EPS):<br>– 0% vesting for 10% growth per annum<br>– 30% vesting for 15% growth per annum<br>– 100% vesting for 20% growth per annum |

## 2011 changes to executive director remuneration

Petrofac has been one of the most successful public companies of recent times. Since IPO, it has created exceptional shareholder value, and as a result it is now an established member of the FTSE 100. Earnings growth during the period has been in excess of 550%.

In last year's remuneration report, the Committee signalled its intention to review basic salaries during 2010, and in particular their impact on total compensation levels, in the context of Petrofac's exceptional performance.

The 2010 benchmarking review showed that basic salary levels remained below industry benchmarks and also below lower quartile compared to UK companies of similar size and complexity. This had a significant impact on total remuneration, which generally remained well below market competitive levels, even after the changes to performance related pay last year. This gap continued to widen given the outstanding performance and sustained growth of the business during 2010.

There is upward pressure on remuneration levels within the oil & gas services industry, both in the general workforce and at more senior levels. It is a highly competitive industry, in which securing increasingly sought after talent is critical to continuing success.

The Committee remains committed to the policy of modest basic salaries and having a significant proportion of pay linked to the continued success of the business. However, total compensation was uncompetitive to the extent that it was inhibiting Petrofac's ability to attract talent which is consistent with Petrofac's growth ambitions and succession planning strategy.

Taking the above factors into account, the Committee believed that it was a priority to deal with this issue. Following consultation with key shareholders, from 1 January 2011, it decided to:

- increase executive director basic salaries by 20%
- make a relatively modest increase to the cash allowance paid to UK executive directors in lieu of pension and company car provision, as existing levels were significantly below the market. The cash allowance was thus increased from £50,000 to £65,000

Following the increases, basic salaries remain at median or below compared to the select oil & gas services comparator group, and around lower quartile compared to the UK market. Cash allowances for UK-based directors continue to be modest.

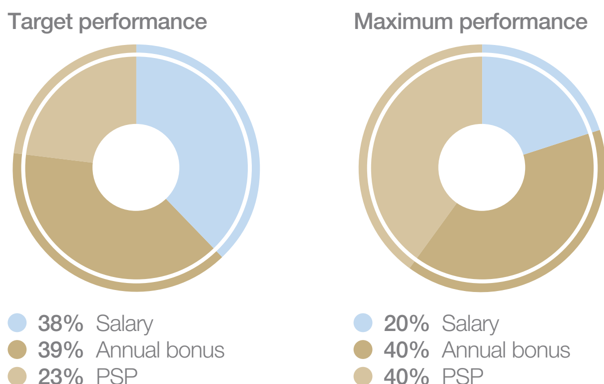
The Committee, and the entire Board, believe that these changes are in shareholders' best interests and are wholly in line with our stated remuneration policy.

### Fixed and variable pay

A significant proportion of Petrofac's total remuneration package is variable. There is a particular emphasis on long-term share-based incentives, to align closely directors' interests with shareholders' interests.

The balance between the fixed (basic salary) and variable (annual bonus and long-term incentive) elements of remuneration varies depending on performance. The charts below show the mix between fixed and variable pay, excluding cash allowances/benefits. The actual mix may be higher or lower, depending on the performance of Petrofac and the individual.

### Composition of total remuneration at target and maximum performance




| Target performance | | Maximum performance | |
|---|---|---|---|
| 38% | Salary | 20% | Salary |
| 39% | Annual bonus | 40% | Annual bonus |
| 23% | PSP | 40% | PSP |

If an executive director receives a maximum cash bonus and maximum PSP award equal to 200% of basic salary, his fixed remuneration (excluding cash allowances/benefits) would be one fifth of his overall remuneration, with variable remuneration making up the balance. At target performance, his fixed remuneration would be broadly two-fifths of his overall remuneration.

## Individual elements of remuneration

### Fixed pay

- basic salary
- cash allowances
- non-cash benefits

### Basic salary

Ordinarily, the Committee determines an executive director's basic salary at the beginning of each year and any change is applied with effect from 1 January. Basic salaries are set at median or below against the relevant benchmarking group, and depend upon the individual's role and contribution.

As outlined on page 84, in light of Petrofac's exceptional growth, and as remuneration levels had fallen further behind the market, the Committee determined that executive director basic salaries should be increased by 20%, from 1 January 2011. Following the increases, basic salaries remain at around lower quartile compared to the UK market and at median or below compared to the oil & gas services comparator group. The revised basic salaries are therefore wholly in line with Petrofac's remuneration policy.

# Directors' remuneration report continued

Changes to basic salaries are as follows, with effect from 1 January 2011:

| | 2011 basic salary | 2010 basic salary |
|---|---|---|
| Ayman Asfari | £582,000 | £485,000 |
| Maroun Semaan | US$567,000 | US$472,500 |
| Keith Roberts | £350,000 | £292,000 |

### Cash allowances

In addition to basic salary and non-cash benefits, UK resident executive directors receive a cash allowance in place of benefits including, but not limited to, car allowances and pension contributions. Directors do not receive pension contributions from the Company.

In 2010, all UK-based executive directors received a cash allowance of £50,000. As previously mentioned, the Committee made relatively modest adjustments to cash allowances to UK-based directors to £65,000, with effect from 1 January 2011.

The Company pays a cash allowance in respect of housing and transport to Maroun Semaan, in line with local market practice. In 2010, Maroun Semaan received a cash allowance of US$220,000 for the year: no increase is proposed from 1 January 2011.

The table below sets out cash allowances for executive directors, from 1 January 2011.

| | 2011 cash allowance | 2010 cash allowance |
|---|---|---|
| Ayman Asfari | £65,000 | £50,000 |
| Maroun Semaan | US$220,000 | US$220,000 |
| Keith Roberts | £65,000 | £50,000 |

In addition, Maroun Semaan, as a UAE resident executive director, is required by local statute to receive a cash sum (called an end of service indemnity) from his employer on the termination of his employment within the UAE. Accordingly, the Company accrues an amount each year.

### Non-cash benefits

Executive directors receive certain benefits-in-kind. UK-resident executive directors currently receive private health insurance, life assurance and long-term disability insurance. Maroun Semaan who, as mentioned above, is resident in the UAE receives similar benefits, as well as other typical expatriate senior executive benefits, such as education and return flights to his permanent home.

## Variable pay

- annual cash bonus payments
- Performance Share Plan

### Annual cash bonus payments

Each January, the Committee decides whether to award each executive director a cash bonus for the previous year. In doing so, the Committee considers two principal elements:

- the extent to which the group's financial performance, and, as appropriate, the business division for which the individual director is primarily responsible, have achieved annually established budgets and targets
- the extent to which the individual has met personal objectives, which are agreed at the start of each year with the aim of achieving the group's business strategy. Each executive director's personal objectives include health and safety targets. In addition, some executive directors have targets in relation to succession planning, risk management and the development and implementation of the group's CSR programme. In this way, the Committee considers that it has an incentive structure for senior managers that promotes responsible behaviour

For 2010, in line with the stated policy, the Committee set the maximum bonus potential at 200% of basic annual salary for achievement of corporate and personal targets.

The Committee awarded cash bonus awards of between 154% and 200% of salary to Ayman Asfari, Keith Roberts and Maroun Semaan, in recognition of both the group's outstanding financial results for 2010 and their personal performances. As shown on pages 28 and 29, Petrofac has displayed strong growth across its KPIs, including revenue, earnings and backlog, as well as the successful demerger of the UK Continental Shelf assets from our Energy Developments business in April 2010.

The following table sets out the 2010 annual bonus awards made to executive directors.

| | Annual bonus in respect of 2010 | As % of 2010 salary |
|---|---|---|
| Ayman Asfari | £970,000 | 200% |
| Maroun Semaan | US$945,000 | 200% |
| Keith Roberts | £450,000 | 154% |

### Performance Share Plan (PSP)

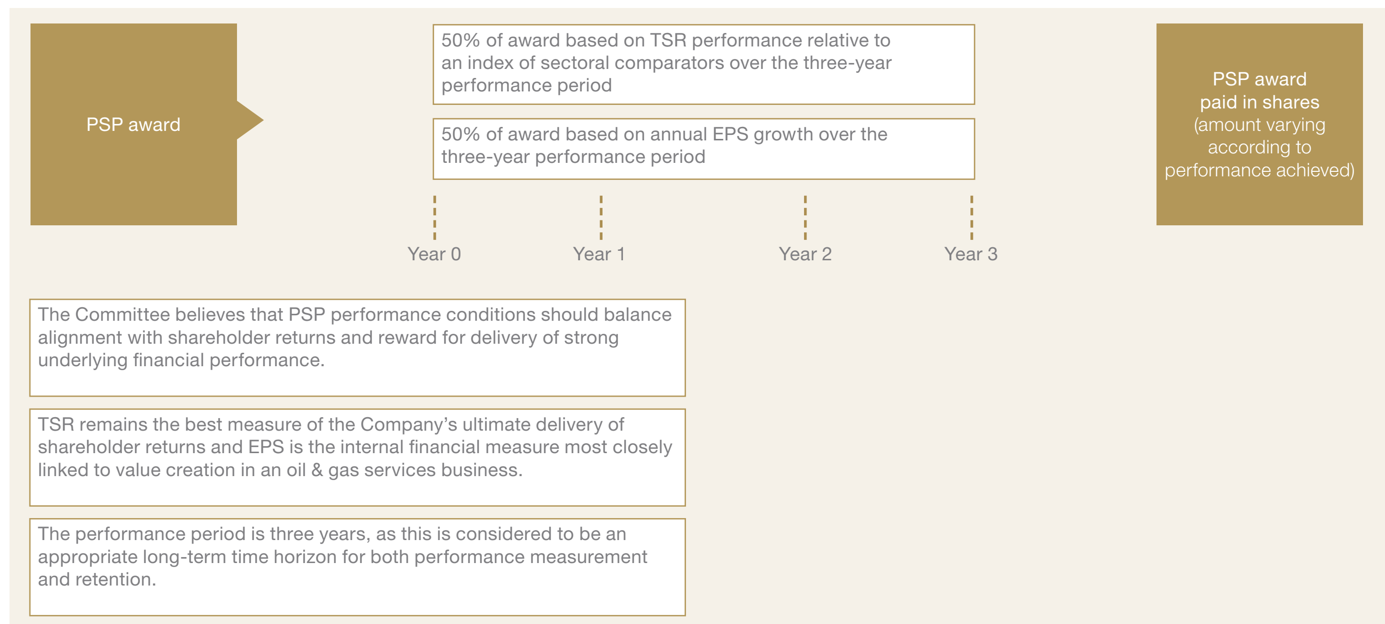
Executive directors and certain senior managers may receive performance-related share awards on an annual basis. Participants are granted contingent awards to receive ordinary shares in the Company, which will in normal circumstances vest after three years, subject to their continued employment and to the extent performance conditions are met.

Under the existing PSP, the maximum award level in any financial year is 200% of basic annual salary, although an award of up to 300% may be made under exceptional circumstances. Award levels are determined based on a participant's individual contribution to the business.

It is proposed that Maroun Semaan will receive a 2011 PSP award of 194% of salary and Keith Roberts will receive a 2011 PSP award of 143% of salary.

The Committee considers that Ayman Asfari's performance during 2010 has been exceptional, taking into account his strong leadership, the sustained growth in revenue, profit and backlog and his continued focus on substantial shareholder value creation, including the successful completion of the demerger of the UK Continental Shelf oil & gas assets in April 2010. Additionally, following the demerger he acted as interim Chief Executive of Energy Developments and Production Solutions for the remainder of 2010. Therefore, the Committee is proposing to make a PSP award of 250% of salary to Ayman in March 2011.

### Plan operation




### *TSR element (50% of award)*

For the 2011 PSP grant, the TSR performance measure and accompanying vesting schedule will remain the same as previous grants.

TSR is the percentage return to a purchaser of an ordinary share in the Company arising from share price appreciation and reinvestment of dividends over a given period. The TSR of the Company is measured and then compared against the median TSR of an index of a number of international peer companies, as detailed in the following table.

| | 2008 award | 2009 award | 2010 award | **2011 award** |
|---|---|---|---|---|
| Abbot Group | • | – | – | – |
| Aker Solutions | • | • | • | • |
| Amec | • | • | • | • |
| Chicago Bridge and Iron Co. | • | • | • | • |
| Entrepose Contracting | • | • | • | – |
| Expro International | • | – | – | – |
| Fluor | • | • | • | • |
| Foster Wheeler | • | • | • | • |
| Haliburton | • | • | • | • |
| Helix Energy Solutions | • | • | – | – |
| JGC | • | • | • | • |
| Maire Tecnimont | – | – | • | • |
| Saipem | • | • | • | • |
| Schlumberger | • | • | • | • |
| SNC-Lavalin Group | • | • | • | • |
| Technip | • | • | • | • |
| Tecnicas Reunidas | • | • | • | • |
| Wood Group (John) | • | • | • | • |
| WorleyParsons | • | • | • | • |

# Directors' remuneration report continued

Vesting is determined in line with the following:

| TSR relative to an un-weighted comparator group index | Percentage of TSR element of award vesting[1,2] |
|---|---|
| Less than index | 0% |
| Equal to index | 30% |
| More than index by up to 25% | Straight line vesting between 30% and 100% |
| More than index by 25% or more | 100% |

1 The Committee is authorised under the rules of the PSP to make retrospective adjustment(s) to the comparator index for any year of award if one or more of the constituent companies are subject to de-listing, merger, acquisition or other such event.
2 It is assumed that a notional £100 is invested equally among all the companies making up the TSR index at the start of the performance period. At the end of the vesting period, the index will represent the value of what the initial notional investment of £100 would have returned over the period. This will be representative of the average return made by the Company's competitors. This is then compared to the return by an equivalent notional investment of £100 in Petrofac over the same period.

From 2010, vesting of the TSR element is subject to the achievement of strong underlying financial performance of Petrofac. For awards granted before then, it was also necessary to achieve EPS growth over the period of at least RPI plus 3% over the three-year vesting period.

*EPS element (50% of award)*
Earnings per share represent the earnings (excluding dividends), in pence, attributable to one ordinary share. The Company's EPS performance over a three-year period is calculated and vesting is in line with the vesting schedule attached to a particular award, as shown in the table below.

| Awards made in 2010 onwards | Awards made prior to 2010 | |
|---|---|---|
| EPS compound annual growth over three-year period | EPS compound annual growth over three-year period | Percentage of EPS element of award vesting |
| 10% or less | 15% or less | 0% |
| More than 10% but less than 15% | More than 15% but less than 20% | Straight line vesting between 0% and 30% |
| 15% | 20% | 30% |
| More than 15% but less than 20% | More than 20% but less than 25% | Straight line vesting between 30% and 100% |
| 20% or more | 25% or more | 100% |

The Committee determines the EPS targets immediately before the grant of each award. It considers internal growth projections, market consensus figures and general external conditions. The Committee believes the targets attached to existing PSP awards are extremely stretching.

## Other discretionary share plans

As part of its oversight role, the Committee considers the following discretionary share plans:

### Deferred Bonus Share Plan (DBSP)

Under the DBSP, selected employees are required, or in some cases invited, to defer a proportion of their annual cash bonus into Company shares ('invested shares'). The Company will generally grant the participant an additional award over a number of shares, being a specified ratio to the number of his or her invested shares ('matching shares'), typically using a 1:1 ratio.

Subject to a participant's continued employment, invested and matching share awards may either vest 100% on the third anniversary of grant; or alternatively, vest one third on the first anniversary of the grant, one third on the second anniversary and the final proportion on the third anniversary.

The Committee uses its discretion to determine whether a participant should be subject to either three-year cliff or annual vesting (or a mixture). In doing so, it takes management recommendations into consideration.

In 2007, the Committee decided that neither executive directors nor the most senior members of management should participate in the scheme as there are no performance conditions attached to matching awards. If such individuals are considered for DBSP participation in future years, the Company undertakes not to make matching awards, unless they are subject to suitably stretching performance conditions and a deferral period of at least three years.

*Proposed changes*
The Committee is seeking shareholder approval to make minor administrative changes to the DBSP at the forthcoming AGM, as set out below:

- the Committee wishes to extend eligibility to participate in the DBSP to certain Petrofac joint ventures (JVs), where it considers it appropriate
- currently, individuals are only eligible to participate in the DBSP if Petrofac holds a majority shareholding in their employing entity. The Committee wishes to have the flexibility to extend participation, where it deems appropriate, to employees of JVs where Petrofac has a shareholding of at least 25%
- the Committee believes that extending participation levels in the DBSP, where appropriate, will align the interests of key individuals in the Company's JV entities with those of Petrofac shareholders

Further details of the proposed resolution are included in the Notice of AGM.

### Restricted Share Plan (RSP)

Under the RSP, selected employees are made grants of shares on an ad hoc basis throughout the year. Executive directors are not eligible to participate in the scheme.

The scheme is used primarily, but not exclusively, to make awards to individuals who join the group part way through the year, having left accrued benefits with a previous employer. The Committee periodically monitors the level of awards.

## Wider workforce remuneration

When determining remuneration arrangements for executive directors, the Committee takes into consideration the pay and conditions of employees throughout the group. There is upward pressure on remuneration levels within our highly competitive sector. The Committee is aware that securing increasingly sought-after key talent is critical to the continued success of Petrofac.

On an all-employee basis, the Company offers participation in an approved Share Incentive Plan (SIP), which the Committee considers as part of its oversight role.

Under the SIP, all UK employees, including UK-resident directors, may invest up to £1,500 per tax year of gross salary (or, if less, 10% of salary) to purchase ordinary shares. There is no holding period for these shares.

## General share plan information

### Dividends and voting rights

Participants in the PSP, DBSP and RSP have no dividend or voting rights in respect of their respective awards until their awards vest. However, when the Company pays a dividend, the shares under award will be increased by the number of shares that could have been acquired with the amount of dividend received, had the participant been the owner of the award shares. The vesting of the additional shares will be subject to the same performance conditions as the original award shares.

Participants in the SIP receive dividends in respect of their shares, in common with any other shareholder.

### Effect of the demerger on subsisting awards

Unlike shareholders, participants in the PSP, DBSP and RSP were not entitled to receive EnQuest PLC shares upon the successful completion of the demerger of Petrofac's UK Continental Shelf oil & gas assets in April 2010. The Committee therefore agreed to make appropriate adjustments to subsisting awards, to put participants in a similar economic position as shareholders, applying an adjustment factor of 1.08 to subsisting awards.

The Committee also approved appropriate adjustments to TSR and EPS performance conditions for subsisting awards, to ensure that measurement is undertaken on a consistent basis.

## Funding policy

In 2007, the Board approved a funding policy in relation to the Company's employee benefit trust, which holds shares to be used to satisfy awards under the Company's DBSP, PSP and RSP.

The Company reviews its contingent obligations under the above listed share incentive schemes on a quarterly basis to ensure that the employee benefit trust should purchase under a loan arrangement with the group and hold shares, sufficient to cover between 80% to 100% of its maximum liability, at any time under the three schemes.

## Other matters

The Committee is delighted to report that at the ifsProShare Awards in December 2010, Petrofac received a commendation in the category of 'Best Employee Share Plan outcome following a Corporate Transaction'.

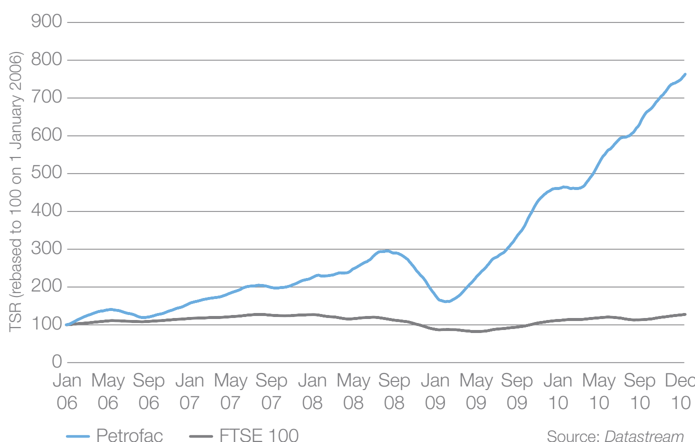
This award recognises Petrofac's detailed consideration of the impact of the demerger of its UK Continental Shelf oil & gas assets to EnQuest PLC in April 2010 on subsisting awards under the Company's share incentive plans.

## Performance graph

As mentioned, the Company's total shareholder return is defined as our share price growth plus any dividends used to acquire further shares in Petrofac. For shareholders' information, the Company's TSR performance since 1 January 2006 is shown below compared with the performance of the FTSE 100 Index.

The Committee believes the FTSE 100 Index is the most appropriate index given the Company's current positioning within it.

Graph showing TSR performance of Petrofac measured against the FTSE 100 over the five-year period to 31 December 2010 (three-month average)




Source: *Datastream*

## Executive directors' service contracts

Executive directors have 12-month rolling service contracts with the Company and are contractually restricted to a termination payment equal to 12 months' salary and benefits. None of the executive directors are subject to a contractual retirement date. Further details are shown below.

| Name of Executive Director | Date of service contract | Date first appointed | Number of months' notice | |
|---|---|---|---|---|
| | | | Company | Director |
| Ayman Asfari | 13 September 2005 | 11 January 2002 | 12 | 12 |
| Maroun Semaan | 13 September 2005 | 11 January 2002 | 12 | 12 |
| Keith Roberts | 13 September 2005 | 6 April 2002 | 12 | 12 |
| Amjad Bseisu[1] | 13 September 2005 | 11 May 2007 | 12 | 12 |

1 Amjad Bseisu stood down from the Board on 6 April 2010.

### Amjad Bseisu

On the successful demerger of the UK Continental Shelf oil & gas assets to EnQuest PLC on 6 April 2010, Amjad Bseisu stepped down from the Board with immediate effect and by mutual agreement to assume the role of Chief Executive of EnQuest PLC. As a result, no compensation was payable to him.

The Committee decided that his subsisting share awards should be scaled back proportionally to reflect the proportion of the relevant vesting period that had elapsed at 6 April 2010. These awards will be released on the original vesting dates, to the extent that the original performance conditions attached to each award are met.

# Directors' remuneration report continued

## Appointment of Andy Inglis

In January 2011, Andy Inglis joined Petrofac as Chief Executive, Energy Developments and Production Solutions. He was appointed to the Board on 1 March 2011.

The Committee considered Andy Inglis' remuneration package in the light of his calibre and experience and the fact that he would be joining the Board shortly after his appointment.

For the most part, Andy Inglis has a standard remuneration package on a similar basis to those of other current Petrofac executive directors. His fixed remuneration will consist of basic salary (£500,000) and a payment in lieu of pension contribution and company car allowance (£65,000), in common with other UK-based executive directors.

Andy Inglis will be eligible to participate in the annual bonus and Performance Share Plan on the same basis as other executive directors.

To attract such a proven business leader with a strong technical background, the Committee agreed the following one-off arrangements:

- for 2011 only, an enhanced PSP award of 300% of salary, subject to the same performance conditions as other executive directors. This replaces any normal 2011 award
- a one-off retention share award with a value of £1 million which will vest in equal annual tranches over three years in order to compensate him for foregone remuneration opportunities
- a one-off payment of £450,000 to assist with his relocation to the UK to perform his duties

## Non-executive directors – remuneration policy and practice

The Board reviews and sets the fees of independent non-executive directors annually, supported by independent professional advice.

When deciding an appropriate fee level for each independent non-executive director, the Board takes into account the level of fees generally paid to non-executive directors serving on boards of similarly-sized, UK-listed companies and the responsibility and time commitment required of the role.

Non-executive directors do not have service contracts and are not entitled to compensation on leaving the Board. However, if the Chairman or a non-executive director is requested to resign, they are entitled to prior notice or fees in lieu of three months' notice.

| Director | Date of latest letter of appointment | Date first appointed | Required notice from Company (in months) |
|---|---|---|---|
| Rodney Chase | 13 September 2005 | 21 June 2005 | 3 |
| Kjell Almskog | 13 September 2005 | 23 March 2005 | 3 |
| Thomas Thune Andersen | 11 February 2011 | 13 May 2010 | 3 |
| Stefano Cao | 11 February 2011 | 13 May 2010 | 3 |
| Rijnhard van Tets | 2 February 2007 | 11 May 2007 | 3 |
| Bernard de Combret[1] | 13 September 2005 | 19 November 2003 | 3 |
| Michael Press[1] | 13 September 2005 | 30 April 2002 | 3 |

1 Bernard de Combret and Michael Press stood down at the 2010 AGM.

Fees for non-executive directors are as shown in the table below. The Board reviewed these fees in early 2011, and has made changes with effect from 1 January 2011 to position the fees close to mid-market taking account of the extensive time and travel demands of these roles.

| | 2011 £ | 2010 £ |
|---|---|---|
| **Basic fees** | | |
| Non-executive Director | 60,000 | 55,000 |
| **Additional fees** | | |
| Committee chairman | 14,000 | 12,000 |
| Senior Independent Director[1] | 14,000 | 12,000 |

1 There is no current intention to pay an additional fee payable for the role of Senior Independent Director once Kjell Almskog steps down from the Board on 13 May 2011.

The remuneration of the Chairman of the Board is set by the Remuneration Committee. The fee level for Rodney Chase, who will be stepping down from the Board after the 2011 AGM, is £120,000 per year with effect from 21 June 2010 (previously £100,000).

Norman Murray and Roxanne Decyk were appointed non-executive directors on 1 March 2011. Subject to shareholder approval, Norman Murray will assume the role of Chairman at the conclusion of the AGM. From 13 May 2011, his annual fee as Chairman will be £230,000.

The Board as a whole is responsible for deciding non-executive directors' fees unless such fees exceed £500,000 per annum in aggregate, in which case shareholder approval in a general meeting would be sought. A resolution is proposed at the 2011 AGM to amend the Articles of Association in order to increase the maximum non-executive director fees payable to £1 million per annum. This increase is necessary to allow Petrofac sufficient headroom to discharge its obligations without further shareholder approval.

## Audited information

### Amount of each director's emoluments in the relevant financial year

The remuneration of each director in respect of 2010 (with 2009 comparison) comprised:

| | Salaries and fees US$'000 | Cash allowances US$'000[1] | Benefits US$'000[2] | Cash bonus US$'000 | **2010 total US$'000** | 2009 total US$'000 |
|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | |
| Ayman Asfari[3] | 747 | 77 | 46 | 1,495 | **2,365** | 1,965 |
| Maroun Semaan | 472 | 260 | 52 | 945 | **1,729** | 1,394 |
| Keith Roberts[3] | 449 | 77 | 1 | 694 | **1,221** | 934 |
| **Non-executive Directors** | | | | | | |
| Rodney Chase | 170 | – | – | – | **170** | 158 |
| Kjell Almskog | 103 | – | – | – | **103** | 87 |
| Thomas Thune Andersen[4] | 66 | – | – | – | **66** | – |
| Stefano Cao[4] | 66 | – | – | – | **66** | – |
| Rijnhard van Tets | 103 | – | – | – | **103** | 87 |
| **Former Directors** | | | | | | |
| Amjad Bseisu[3,5] | 117 | 20 | – | – | **137** | 924 |
| Bernard de Combret[5] | 37 | – | – | – | **37** | 87 |
| Michael Press[5] | 37 | – | – | – | **37** | 87 |
| | **2,367** | **434** | **99** | **3,134** | **6,034** | 5,723 |

1 Payment in lieu of pension allowance and other benefits for UK-resident directors and end of service indemnity and various allowances for the UAE-resident director, as outlined on page 88. Directors are not eligible to receive pension contributions from the Company.
2 Ayman Asfari's benefits relate primarily to the employment of a personal assistant who spends part of her time in the administration of his philanthropic work. Maroun Semaan receives, inter alia, benefits in relation to his children's education and return flights to his permanent home. Details of other benefits are provided on page 88.
3 UK-based directors are paid in Sterling. Amounts have been translated to US Dollars based on the prevailing rate at the date of payment or award with the exception of the bonus amounts, which have been translated using the average exchange rate for the year.
4 Thomas Thune Andersen and Stefano Cao were appointed as directors on 13 May 2010 and their fees reflect the period from then to the end of the year.
5 Amjad Bseisu stepped down as a director on 6 April 2010 upon the demerger of EnQuest PLC and the table above shows his remuneration during the period up to his departure; Bernard de Combret and Michael Press stepped down as directors on 13 May 2010 and their fees reflect the period up to then.

# Directors' remuneration report continued

## Awards of shares under the PSP

Awards of shares during the year to executive directors under the PSP are given below:

| Director and date of grant | % of basic salary in year of grant | Number of shares at 31.12.09[1] | Shares granted in year under annual award cycle[1] | Dividend shares granted in the year[2] | Additional shares received upon adjustment for the demerger[3] | Lapsed in year | Vested in year | **Number of shares at 31.12.10[1]** | Date from which shares vest | Market price on date of grant |
|---|---|---|---|---|---|---|---|---|---|---|
| **Ayman Asfari** | | | | | | | | | | |
| 19 March 2007 | 100.0 | 95,671 | – | – | – | – | 95,671 | **Nil[4]** | 19 March 2010 | 415p |
| 19 March 2008 | 122.7 | 104,032 | – | 2,490 | 8,322 | – | – | **114,844[4]** | 19 March 2011 | 522p |
| 19 March 2009 | 130.9 | 116,539 | – | 2,789 | 9,323 | – | – | **128,651[5]** | 19 March 2012 | 545p |
| 14 May 2010 | 200.0 | – | 88,213 | 1,954 | – | – | – | **90,167[5]** | 19 March 2013 | 1103p |
| **Maroun Semaan** | | | | | | | | | | |
| 19 March 2007 | 100.0 | 45,204 | – | – | – | – | 45,204 | **Nil[4]** | 19 March 2010 | 415p |
| 19 March 2008 | 123.7 | 47,750 | – | 1,142 | 3,820 | – | – | **52,712[4]** | 19 March 2011 | 522p |
| 19 March 2009 | 122.2 | 73,267 | – | 1,753 | 5,861 | – | – | **80,881[5]** | 19 March 2012 | 545p |
| 14 May 2010[6] | 225.0 | – | 66,462 | 1,472 | – | – | – | **67,934[5]** | 19 March 2013 | 1103p |
| **Keith Roberts** | | | | | | | | | | |
| 19 March 2007 | 100.0 | 58,465 | – | – | – | – | 58,465 | **Nil[4]** | 19 March 2010 | 415p |
| 19 March 2008 | 88.9 | 46,236 | – | 1,106 | 3,698 | – | – | **51,040[4]** | 19 March 2011 | 522p |
| 19 March 2009 | 95.0 | 50,852 | – | 1,217 | 4,068 | – | – | **56,137[5]** | 19 March 2012 | 545p |
| 14 May 2010 | 200.0 | – | 53,110 | 1,176 | – | – | – | **54,286[5]** | 19 March 2013 | 1103p |
| **Former Director** | | | | | | | | | | |
| **Amjad Bseisu[7]** | | | | | | | | | | |
| 19 March 2007 | 100.0 | 55,807 | – | – | – | – | 55,807 | **Nil[4]** | 19 March 2010 | 415p |
| 19 March 2008 | 92.3 | 46,236 | – | – | 3,698 | 16,647 | – | **33,287** | 19 March 2011 | 522p |
| 19 March 2009 | 90.9 | 48,156 | – | – | 3,852 | 34,673 | – | **17,335** | 19 March 2012 | 545p |

1 The award levels given are the maximum number that can vest subject to the performance conditions attached to awards. The performance conditions are explained in detail on pages 88 to 90.
2 Dividends awarded on the shares granted under the PSP are reinvested to buy further shares.
3 Following the completion of the demerger of Petrofac's UK Continental Shelf oil & gas assets to EnQuest PLC in April 2010, the Company applied an adjustment factor of 1.08 (8%) to unvested share awards held under the Petrofac Performance Share Plan ('PSP') to compensate awardholders for not being entitled to EnQuest PLC shares at the time of the demerger.
4 The performance conditions for the April 2007 PSP award were satisfied and the award vested in full during the year. Shares awarded on 19 March 2008 have satisfied their performance conditions in full and will vest 100% on 19 March 2011. Based on a share price of 1378 pence, which is the share price at 25 February 2011 being the latest practicable date prior to the adoption of this report by the Remuneration Committee, the values of the awards delivered to current executive directors would be as follows: Ayman Asfari: £1,582,550; Keith Roberts: £703,331; and Maroun Semaan: £726,371.
5 Shares awarded on 19 March 2009 and 14 May 2010 are not due to vest until 19 March 2012 and 19 March 2013, respectively. It is too early, in the Committee's opinion, to provide shareholders with a meaningful assessment to the extent that these shares will vest, if at all.
6 Maroun Semaan received an exceptional PSP award of 225% of salary in 2010 due to his outstanding contribution to the group's extremely strong performance in 2009.
7 Amjad Bseisu stepped down from the Board on 6 April 2010. His share awards have been scaled back proportionally to reflect the proportion of the relevant vesting period that had elapsed as at 6 April 2010. These awards will be released on the original vesting dates, as outlined in the table above.

### Sums paid to third parties in respect of executive directors' services

No sums were paid to third parties in respect of any executive director's services (2009: nil).

### Directors' beneficial shareholdings at 31 December 2010

Directors' personal shareholdings, which include family interests and which are not related to their remuneration, have been disclosed under the requirements of the UKLA listing rules and are as follows:

| | Number of shares as at 31 December 2010 | Number of shares as at 31 December 2009 or date of appointment if later[1] |
|---|---|---|
| **Executive Directors** | | |
| Ayman Asfari | **62,782,114** | 53,782,114 |
| Maroun Semaan | **28,082,676** | 30,607,676 |
| Keith Roberts | **2,120,000** | 2,120,000 |
| **Non-executive Directors** | | |
| Rodney Chase | **815,000** | 800,000 |
| Kjell Almskog | **400,000** | 400,000 |
| Thomas Thune Andersen[1] | **4,000** | 2,000 |
| Rijnhard van Tets | **100,000** | 100,000 |

The Company's share price at the end of the financial year was 1587 pence and the market price during the year was in the range of 948.5 pence to 1601 pence.

### AGM

The remuneration report will be submitted for approval to the AGM to be held on Friday 13 May 2011.

On behalf of the Board

Thomas Thune Andersen
Chairman of the Remuneration Committee
4 March 2011

# Directors' statements

## Directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations. The directors have chosen to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS). The directors are also responsible for the preparation of the directors' remuneration report, which they have chosen to prepare, being under no obligation to do so under Jersey law. The directors are also responsible for the preparation of the corporate governance report under the Listing Rules.

Jersey Company law (the 'Law') requires the directors to prepare financial statements for each financial period in accordance with any generally accepted accounting principles. The financial statements are required by law to give a true and fair view of the state of affairs of the Company at the period end and the profit or loss of the Company for the period then ended. In preparing these financial statements, the directors should:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- specify which generally accepted accounting principles have been adopted in their preparation
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business

The directors are responsible for keeping proper accounting records which are sufficient to show and explain the Company's transactions and as such as to disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements prepared by the Company comply with the Law. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Directors' approach

The Board's objective is to present a balanced and understandable assessment of the Company's position and prospects, particularly in the annual report, half year report (formerly the interim report) and other published documents and reports to regulators. The Board has established an Audit Committee to assist with this obligation.

## Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the business review on pages 16 to 54. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the financial review on pages 52 to 54. In addition, note 33 to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Company has considerable financial resources together with long-term contracts with a number of customers and suppliers across different geographic areas and industries. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

## Responsibility statement under the Disclosure and Transparency Rules

Each of the directors listed on pages 68 and 69 confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole
- the operating and financial review includes a fair view of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face

By order of the Board

Keith Roberts
Chief Financial Officer
4 March 2011

# Independent Auditors' report to the members of Petrofac Limited

We have audited the group financial statements of Petrofac Limited ('the Company') and its subsidiaries (together 'the group') for the year ended 31 December 2010 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated cash flow statement, the consolidated statement of changes in equity and the related notes 1 to 35. The financial reporting framework that has been applied in their preparation is applicable Jersey law and International Financial Reporting Standards.

This report is made solely to the Company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991 and our engagement letter dated 15 February 2011. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of directors and auditor

As explained more fully in the statement of directors' responsibilities set out on page 96, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

In addition the Company has also instructed us to:

- review the statement of directors' responsibilities in relation to going concern as set out on page 96, which for a premium listed UK incorporated company is specified for review by the Listing Rules of the Financial Services Authority
- report as to whether the information given in the corporate governance report with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

## Opinion on financial statements

In our opinion the group financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2010 and of its profit for the year then ended
- have been properly prepared in accordance with International Financial Reporting Standards
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991

## Opinion on other matter

In our opinion, the information given in the corporate governance report set out on pages 71 to 78 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following matters:

- where the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:
  - proper accounting records have not been kept, or proper returns adequate for our audit have not been received from branches not visited by us
  - the financial statements are not in agreement with the accounting records and returns
  - we have not received all the information and explanations we require for our audit
- under the Listing Rules we are required to review the part of the corporate governance report relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review
- where the Company instructed us to review the statement of directors' responsibilities, set out on page 96, in relation to going concern

## Other matter

We have reported separately on the parent company financial statements of Petrofac Limited for the year ended 31 December 2010 and on the information in the remuneration report that is described as having been audited.

Justine Belton
for and on behalf of Ernst & Young LLP
London
4 March 2011

Notes:
1 The maintenance and integrity of the Petrofac Limited web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2 Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Consolidated financial statements

# Consolidated income statement

For the year ended 31 December 2010

| | Notes | 2010 US$'000 | Restated 2009 US$'000 |
|---|---|---|---|
| **Revenue** | 4a | **4,354,217** | 3,655,426 |
| Cost of sales | 4b | **(3,595,142)** | (3,038,250) |
| **Gross profit** | | **759,075** | 617,176 |
| Selling, general and administration expenses | 4c | **(221,449)** | (186,293) |
| Gain on EnQuest demerger | 11 | **124,864** | – |
| Other income | 4f | **5,013** | 4,075 |
| Other expenses | 4g | **(4,053)** | (2,998) |
| **Profit from operations before tax and finance income/(costs)** | | **663,450** | 431,960 |
| Finance costs | 5 | **(5,131)** | (5,582) |
| Finance income | 5 | **10,209** | 11,942 |
| Share of loss of associate | 14 | **(131)** | – |
| **Profit before tax** | | **668,397** | 438,320 |
| Income tax expense | 6 | **(110,545)** | (84,515) |
| **Profit for the year** | | **557,852** | 353,805 |
| | | | |
| **Attributable to:** | | | |
| Petrofac Limited shareholders | | **557,817** | 353,603 |
| Non-controlling interests | | **35** | 202 |
| | | **557,852** | 353,805 |
| | | | |
| **Earnings per share (US cents)** | 7 | | |
| – Basic (excluding gain on EnQuest demerger) | | **127.76** | 104.78 |
| – Diluted (excluding gain on EnQuest demerger) | | **126.09** | 103.19 |
| | | | |
| – Basic (including gain on EnQuest demerger) | | **164.61** | 104.78 |
| – Diluted (including gain on EnQuest demerger) | | **162.46** | 103.19 |

The attached notes 1 to 35 form part of these consolidated financial statements.

# Consolidated statement of comprehensive income

For the year ended 31 December 2010

| | Notes | 2010 US$'000 | Restated 2009 US$'000 |
|---|---|---|---|
| **Profit for the year** | | 557,852 | 353,805 |
| Foreign currency translation | 25 | (908) | 15,087 |
| Foreign currency translation recycled to income statement in the year on EnQuest demerger | 11 | 45,818 | – |
| Net gains on maturity of cash flow hedges recycled in the period | 25 | (16,612) | (4,303) |
| Net changes in fair value of derivatives and financial assets designated as cash flow hedges | 25 | (18,958) | 29,229 |
| Net changes in the fair value of available-for-sale financial assets | 25 | 70 | – |
| Disposal of available-for-sale financial assets | 25 | (74) | – |
| Other comprehensive income | | 9,336 | 40,013 |
| **Total comprehensive income for the period** | | 567,188 | 393,818 |
| | | | |
| **Attributable to:** | | | |
| Petrofac Limited shareholders | | 567,153 | 393,616 |
| Non-controlling interests | | 35 | 202 |
| | | 567,188 | 393,818 |

The attached notes 1 to 35 form part of these consolidated financial statements.

# Consolidated statement of financial position

At 31 December 2010

| | Notes | 2010 US$'000 | Restated 2009 US$'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 9 | 287,158 | 677,996 |
| Goodwill | 12 | 105,832 | 97,922 |
| Intangible assets | 13 | 85,837 | 73,107 |
| Investment in associates | 14 | 16,349 | – |
| Available-for-sale financial assets | 16 | 101,494 | 539 |
| Other financial assets | 17 | 2,223 | 12,535 |
| Deferred income tax assets | 6c | 26,301 | 49,726 |
| | | 625,194 | 911,825 |
| **Current assets** | | | |
| Inventories | 18 | 7,202 | 9,798 |
| Work in progress | 19 | 803,986 | 333,698 |
| Trade and other receivables | 20 | 1,056,759 | 878,670 |
| Due from related parties | 32 | 327 | 18,260 |
| Other financial assets | 17 | 42,350 | 30,957 |
| Income tax receivable | | 2,525 | – |
| Cash and short-term deposits | 21 | 1,063,005 | 1,417,363 |
| | | 2,976,154 | 2,688,746 |
| **Total assets** | | 3,601,348 | 3,600,571 |
| **Equity and liabilities** | | | |
| **Equity attributable to Petrofac Limited shareholders** | | | |
| Share capital | 22 | 6,914 | 8,638 |
| Share premium | | 992 | 69,712 |
| Capital redemption reserve | | 10,881 | 10,881 |
| Shares to be issued | | 994 | 1,988 |
| Treasury shares | 23 | (65,317) | (56,285) |
| Other reserves | 25 | 34,728 | 25,394 |
| Retained earnings | | 787,270 | 834,382 |
| | | 776,462 | 894,710 |
| Non-controlling interests | | 2,592 | 2,819 |
| **Total equity** | | 779,054 | 897,529 |
| **Non-current liabilities** | | | |
| Interest-bearing loans and borrowings | 26 | 40,226 | 59,195 |
| Provisions | 27 | 45,441 | 92,103 |
| Other financial liabilities | 28 | 11,453 | 27,485 |
| Deferred income tax liabilities | 6c | 48,086 | 42,192 |
| | | 145,206 | 220,975 |
| **Current liabilities** | | | |
| Trade and other payables | 29 | 1,021,436 | 977,017 |
| Due to related parties | 32 | 11,710 | 57,326 |
| Interest-bearing loans and borrowings | 26 | 47,435 | 58,071 |
| Other financial liabilities | 28 | 37,054 | 3,634 |
| Income tax payable | | 105,559 | 88,219 |
| Billings in excess of cost and estimated earnings | 19 | 178,429 | 461,144 |
| Accrued contract expenses | 30 | 1,275,465 | 836,656 |
| | | 2,677,088 | 2,482,067 |
| **Total liabilities** | | 2,822,294 | 2,703,042 |
| **Total equity and liabilities** | | 3,601,348 | 3,600,571 |

The financial statements on pages 99 to 143 were approved by the Board of Directors on 4 March 2011 and signed on its behalf by Keith Roberts – Chief Financial Officer.

The attached notes 1 to 35 form part of these consolidated financial statements.

# Consolidated statement of cash flows

For the year ended 31 December 2010

| | Notes | 2010 US$'000 | Restated 2009 US$'000 |
|---|---|---|---|
| **Operating activities** | | | |
| **Profit before tax including gain on EnQuest demerger** | | 668,397 | 438,320 |
| **Gain on EnQuest demerger** | | (124,864) | – |
| | | 543,533 | 438,320 |
| Non-cash adjustments to reconcile profit before tax to net cash flows: | | | |
| Depreciation, amortisation, impairment and write off | 4b, 4c | 95,903 | 117,780 |
| Share-based payments | 4d | 14,784 | 13,263 |
| Difference between other long-term employment benefits paid and amounts recognised in the income statement | | 6,074 | 7,905 |
| Net finance income | 5 | (5,078) | (6,360) |
| Loss/(gain) on disposal of property, plant and equipment | 4b,4f,4g | 315 | (784) |
| Gain on disposal of intangible assets | 4f | (2,338) | – |
| Other non-cash items, net | | 13,319 | (3,233) |
| | | 666,512 | 566,891 |
| Working capital adjustments: | | | |
| Trade and other receivables | | (266,757) | (176,773) |
| Work in progress | | (470,288) | (81,003) |
| Due from related parties | | 17,933 | (15,353) |
| Inventories | | (2,982) | (5,721) |
| Other current financial assets | | (12,661) | (4,775) |
| Trade and other payables | | 167,707 | 479,902 |
| Billings in excess of cost and estimated earnings | | (282,715) | 175,617 |
| Accrued contract expenses | | 438,809 | 284,795 |
| Due to related parties | | (45,616) | 56,767 |
| Other current financial liabilities | | 6,045 | 177 |
| | | 215,987 | 1,280,524 |
| Other non-current items, net | | (8,720) | (4,265) |
| **Cash generated from operations** | | 207,267 | 1,276,259 |
| Interest paid | | (1,948) | (3,351) |
| Income taxes paid, net | | (99,030) | (87,714) |
| **Net cash flows from operating activities** | | 106,289 | 1,185,194 |
| **Investing activities** | | | |
| Purchase of property, plant and equipment | | (115,345) | (317,174) |
| Acquisition of subsidiaries, net of cash acquired | 10 | (15,110) | – |
| Purchase of other intangible assets | 13 | (153) | (10,375) |
| Purchase of intangible oil & gas assets | 13 | (15,644) | (29,230) |
| Cash outflow on EnQuest demerger (including transaction costs) | | (17,783) | – |
| Investment in associates | 14 | (8,459) | – |
| Purchase of available-for-sale financial assets | 16 | (101,494) | (106) |
| Proceeds from disposal of property, plant and equipment | | 3,219 | 1,333 |
| Proceeds from disposal of available-for-sale financial assets | | 539 | 95 |
| Proceeds from sale of intangible assets | | 6,018 | – |
| Interest received | | 10,257 | 12,158 |
| **Net cash flows used in investing activities** | | (253,955) | (343,299) |
| **Financing activities** | | | |
| Repayment of interest-bearing loans and borrowings | | (32,458) | (9,958) |
| Proceeds from capital injection by non-controlling interest | | – | 2,408 |
| Treasury shares purchased | 23 | (36,486) | – |
| Equity dividends paid | | (132,244) | (98,995) |
| **Net cash flows used in financing activities** | | (201,188) | (106,545) |
| **Net (decrease)/increase in cash and cash equivalents** | | (348,854) | 735,350 |
| Net foreign exchange difference | | (7,793) | 6,235 |
| Cash and cash equivalents at 1 January | | 1,390,744 | 649,159 |
| **Cash and cash equivalents at 31 December** | 21 | 1,034,097 | 1,390,744 |

The attached notes 1 to 35 form part of these consolidated financial statements.

# Consolidated statement of changes in equity

## For the year ended 31 December 2010

| | Attributable to shareholders of Petrofac Limited | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Issued share capital US$'000 | Share premium US$'000 | Capital redemption reserve US$'000 | Shares to be issued US$'000 | *Treasury shares US$'000 (note 23) | Other reserves US$'000 (note 25) | Retained earnings US$'000 | Total US$'000 | Non-controlling interests US$'000 | Total equity US$'000 |
| Balance at 1 January 2010 as restated | 8,638 | 69,712 | 10,881 | 1,988 | (56,285) | 25,394 | 834,382 | 894,710 | 2,819 | 897,529 |
| Net profit for the year | – | – | – | – | – | – | 557,817 | 557,817 | 35 | 557,852 |
| Other comprehensive income | – | – | – | – | – | 9,336 | – | 9,336 | – | 9,336 |
| Total comprehensive income for the year | – | – | – | – | – | 9,336 | 557,817 | 567,153 | 35 | 567,188 |
| Shares issued as payment of consideration on acquisition | 4 | 2,452 | – | (994) | – | – | – | 1,462 | – | 1,462 |
| Share-based payments charge (note 24) | – | – | – | – | – | 14,784 | – | 14,784 | – | 14,784 |
| Shares vested during the year (note 23) | – | – | – | – | 27,454 | (26,170) | (1,284) | – | – | – |
| Transfer to reserve for share-based payments (note 24) | – | – | – | – | – | 12,750 | – | 12,750 | – | 12,750 |
| Treasury shares purchased (note 23) | – | – | – | – | (36,486) | – | – | (36,486) | – | (36,486) |
| Deferred tax on share based payments reserve | – | – | – | – | – | (1,366) | – | (1,366) | – | (1,366) |
| EnQuest demerger share split and redemption (note 11) | (1,728) | – | – | – | – | – | 1,728 | – | – | – |
| Distribution on EnQuest demerger (note 11) | – | (71,172) | – | – | – | – | (473,325) | (544,497) | – | (544,497) |
| Dividends (note 8) | – | – | – | – | – | – | (132,048) | (132,048) | – | (132,048) |
| Movement in non-controlling interests | – | – | – | – | – | – | – | – | (262) | (262) |
| **Balance at 31 December 2010** | **6,914** | **992** | **10,881** | **994** | **(65,317)** | **34,728** | **787,270** | **776,462** | **2,592** | **779,054** |

| | Attributable to shareholders of Petrofac Limited | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Issued share capital US$'000 | Share premium US$'000 | Capital redemption reserve US$'000 | Shares to be issued US$'000 | *Treasury shares US$'000 (note 23) | Other reserves US$'000 (note 25) | Retained earnings US$'000 | Total US$'000 | Non-controlling interests US$'000 | Total equity US$'000 |
| Balance at 1 January 2009 | 8,636 | 68,203 | 10,881 | 1,988 | (69,333) | (39,292) | 577,739 | 558,822 | 209 | 559,031 |
| Net profit for the year as reported | – | – | – | – | – | – | 353,603 | 353, 603 | 9,428 | 363,031 |
| Other comprehensive income as reported | – | – | – | – | – | 35,813 | – | 35,813 | 4,200 | 40,013 |
| Total comprehensive income for the year as reported | – | – | – | – | – | 35,813 | 353, 603 | 389,416 | 13,628 | 403,044 |
| Restatement | – | – | – | – | – | 4,200 | – | 4,200 | (13,426) | (9,226) |
| Total comprehensive income for the year as restated | – | – | – | – | – | 40,013 | 353, 603 | 393,616 | 202 | 393,818 |
| Shares issued on acquisition | 2 | 1,509 | – | – | – | – | – | 1,511 | – | 1,511 |
| Share-based payments charge (note 24) | – | – | – | – | – | 13,263 | – | 13,263 | – | 13,263 |
| Shares vested during the year (note 23) | – | – | – | – | 13,048 | (12,617) | (431) | – | – | – |
| Transfer to reserve for share-based payments (note 24) | – | – | – | – | – | 10,942 | – | 10,942 | – | 10,942 |
| Deferred tax on share based payments reserve | – | – | – | – | – | 13,085 | – | 13,085 | – | 13,085 |
| Capital injection by non-controlling interests | – | – | – | – | – | – | – | – | 2,408 | 2,408 |
| Dividends (note 8) | – | – | – | – | – | – | (96,529) | (96,529) | – | (96,529) |
| Balance at 31 December 2009 as restated | 8,638 | 69,712 | 10,881 | 1,988 | (56,285) | 25,394 | 834,382 | 894,710 | 2,819 | 897,529 |

*Shares held by Petrofac Employee Benefit Trust.

The attached notes 1 to 35 form part of these consolidated financial statements.

# Notes to the consolidated financial statements

For the year ended 31 December 2010

## 1 Corporate information

The consolidated financial statements of Petrofac Limited (the 'Company') for the year ended 31 December 2010 were authorised for issue in accordance with a resolution of the directors on 4 March 2011.

Petrofac Limited is a limited liability company registered and domiciled in Jersey under the Companies (Jersey) Law 1991 and is the holding company for the international group of Petrofac subsidiaries (together 'the group'). The Company's 31 December 2010 financial statements are shown on pages 146 to 158. The group's principal activity is the provision of facilities solutions to the oil & gas production and processing industry.

A full listing of all group companies, and joint venture companies, is contained in note 35 to these consolidated financial statements.

## 2 Summary of significant accounting policies

### Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and available-for-sale financial assets which have been measured at fair value. The presentation currency of the consolidated financial statements is United States Dollars and all values in the financial statements are rounded to the nearest thousand (US$'000) except where otherwise stated. The directors have re-considered the nature of the contractual commitments to a joint venture on a lump sum construction contract in the Engineering & Construction reporting segment and as a result, the amount of US$9,226,000 shown as part of non-controlling interest in December 2009 in the income statement has been reclassified to Cost of Sales. Similarly US$4,200,000 shown within Other Comprehensive Income has been shown as attributable to Petrofac. US$9,226,000 in the statement of financial position has been reclassified as trade and other payables.

### Statement of compliance

The consolidated financial statements of Petrofac Limited and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS) and applicable requirements of Jersey law.

### Basis of consolidation

The consolidated financial statements comprise the financial statements of Petrofac Limited and its subsidiaries. The financial statements of its subsidiaries are prepared for the same reporting year as the Company and where necessary, adjustments are made to the financial statements of the group's subsidiaries to bring their accounting policies into line with those of the group.

Subsidiaries are consolidated from the date on which control is transferred to the group and cease to be consolidated from the date on which control is transferred out of the group. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. All intra-group balances and transactions, including unrealised profits, have been eliminated on consolidation.

Non-controlling interests in subsidiaries consolidated by the group are disclosed separately from the group's equity and income statement. Prior to 1 January 2010 losses incurred by the group were attributed to non-controlling interests until the balance is reduced to nil. Any further excess losses were attributed to the parent, unless there was a binding obligation on the part of the non-controlling interest to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interests and the parent shareholders.

### New standards and interpretations

The group has adopted new and revised Standards and Interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2010. The principal effects of the adoption of these new and amended standards and interpretations are discussed below:

IFRS 3 'Business Combinations (Revised)' the revised standard increases the number of transactions to which it must be applied including business combinations of mutual entities and combinations without consideration. IFRS 3 (revised) introduces significant changes in the accounting for business combinations such as valuation of non-controlling interest, business combination achieved in stages, the initial recognition and subsequent measurement of a contingent consideration and the accounting for transaction costs. These changes will have a significant impact on profit or loss reported in the period of an acquisition, the amount of goodwill recognised in a business combination and profit or loss reported in future periods.

IAS 27 'Consolidated and Separate Financial Statements (Amendments)' the amended standard requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners and these transactions will no longer give rise to goodwill or gains and losses. The standard also specifies the accounting when control is lost and any retained interest is remeasured to fair value with gains or losses recognised in profit or loss.

IFRIC 17 'Distributions of Non-cash Assets to owners' this interpretation provides guidance in respect of accounting for non-cash asset distributions to shareholders. This interpretation is effective for periods beginning on or after 1 July 2009. See note 11 for distributions in respect of EnQuest demerger.

IFRS 8 'Operating Segments' the amendment clarifies that segment assets and liabilities need not be reported if they are not used as a measure by the chief operating decision maker. As segment assets and liabilities are not reviewed by the chief operating decision maker for operational and financial decisions, the group has opted not to disclose segment assets and liabilities in note 3.

IAS 36 'Impairment of assets' the amendment clarifies that operating segments as defined in IFRS 8 prior to aggregation for reporting purposes, are the largest unit for allocating goodwill on acquisitions. The amendment has no impact on the group as goodwill impairment testing is performed on cash generating units before aggregation.

Certain new standards, amendments to and interpretations of existing standards have been issued and are effective for the group's accounting periods beginning on or after 1 January 2011 or later periods which the group has not early adopted. The following are applicable to the group for which the impact on the group's operating results or financial position will be assessed on adoption of these standards and interpretations:

i) IFRS 9 'Financial Instruments' effective for annual periods beginning on or after 1 January 2013, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to the classification and measurement of financial assets. It specifies that all financial assets should be initially measured at fair value and gives further guidance on the measurement of debt instruments and equity instruments. In subsequent phases, the IASB will address the classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The management believes that this standard will not have a significant effect on the group's financial position.

ii) IAS 24 'Related party disclosures (Revised)' effective for annual periods beginning on or after 1 January 2011. The revision simplifies the identification of related party relationships, particularly in relation to significant influence and joint control. The management believes that this standard will not have a significant effect on the group's financial position.

Other amendments resulting from improvements to IFRS to the following standards and interpretations did not have any impact on the accounting policies, financial position or performance of the group:

IAS 1 'Presentation of Financial Statements'
IAS 32 'Financial Instruments: Presentation – Classification of Rights Issues (Amendment)'
IFRIC 14 'Prepayments of a Minimum Funding Requirement (Amendment)'
IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments'

**Significant accounting judgements and estimates**

Judgements

In the process of applying the group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements:

- revenue recognition on fixed-price engineering, procurement and construction contracts: the group recognises revenue on fixed-price engineering, procurement and construction contracts using the percentage-of-completion method, based on surveys of work performed. The group has determined this basis of revenue recognition is the best available measure of progress on such contracts

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

- project cost to complete estimates: at each statement of financial position date the group is required to estimate costs to complete on fixed price contracts. Estimating costs to complete on such contracts requires the group to make estimates of future costs to be incurred, based on work to be performed beyond the statement of financial position date
- onerous contract provisions: the group provides for future losses on long-term contracts where it is considered probable that the contract costs are likely to exceed revenues in future years. Estimating these future losses involves a number of assumptions about the achievement of contract performance targets and the likely levels of future cost escalation over time
- impairment of goodwill: the group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the group to make an estimate of the expected future cash flows from each cash-generating unit and also to determine a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2010 was US$105,832,000 (2009: US$97,922,000) (note 12)
- deferred tax assets: the group recognises deferred tax assets on all applicable temporary differences where it is probable that future taxable profits will be available for utilisation. This requires management to make judgements and assumptions regarding the amount of deferred tax that can be recognised based on the magnitude and likelihood of future taxable profits. The carrying amount of deferred tax assets at 31 December 2010 was US$26,301,000 (2009: US$49,726,000)
- income tax: the Company and its subsidiaries are subject to routine tax audits and also a process whereby tax computations are discussed and agreed with the appropriate authorities. Whilst the ultimate outcome of such tax audits and discussions cannot be determined with certainty, management estimates the level of provisions required for both current and deferred tax on the basis of professional advice and the nature of current discussions with the tax authority concerned
- recoverable value of intangible oil & gas and other intangible assets: the group determines at each statement of financial position date whether there is any evidence of indicators of impairment in the carrying value of its intangible oil & gas and other intangible assets. Where indicators exist, an impairment test is undertaken which requires management to estimate the recoverable value of its intangible assets for example by reference to quoted market values, similar arm's length transactions involving these assets or value in use calculations
- units of production depreciation: estimated proven plus probable reserves are used in determining the depreciation of oil & gas assets such that the depreciation charge is proportional to the depletion of the remaining reserves over their life of production. These calculations require the use of estimates including the amount of economically recoverable reserves and future oil & gas capital expenditure

**Interests in joint ventures**

The group has a number of contractual arrangements with other parties which represent joint ventures. These take the form of agreements to share control over other entities ('jointly controlled entities') and commercial collaborations ('jointly controlled operations'). The group's interests in jointly controlled entities are accounted for by proportionate consolidation, which involves recognising the group's proportionate share of the joint venture's assets, liabilities, income and expenses with similar items in the consolidated financial statements on a line-by-line basis. Where the group collaborates with other entities in jointly controlled operations, the expenses the group incurs and its share of the revenue earned is recognised in the consolidated income statement. Assets controlled by the group and liabilities incurred by it are recognised in the statement of financial position. Where necessary, adjustments are made to the financial statements of the group's jointly controlled entities and operations to bring their accounting policies into line with those of the group.

**Investment in associates**

The group's investment in associates is accounted for using the equity method where the investment is initially carried at cost and adjusted for post acquisition changes in the group's share of net assets of the associate. Goodwill on the initial investment forms a part of the carrying amount of the investment and is not individually tested for impairment.

The group recognises its share of the net profits after tax and non-controlling interest of the associates in its consolidated income statement. Share of associate's changes in equity is also recognised in the group's consolidated statement of changes in equity. Any unrealised gains and losses resulting from transactions between the group and the associate are eliminated to the extent of the interest in associates.

The financial statements of the associate are prepared using the same accounting policies and reporting periods as that of the group.

The carried value of the investment is tested for impairment at each reporting date. Impairment, if any, is determined by the difference between the recoverable amount of the associate and its carried value and is reported within the share of income of an associate in the group's consolidated income statement.

# Notes to the consolidated financial statements continued
For the year ended 31 December 2010

## 2 Summary of significant accounting policies continued

### Foreign currency translation

The Company's functional and presentational currency is United States Dollars. In the financial statements of individual subsidiaries, joint ventures and associates, transactions in currencies other than a company's functional currency are recorded at the prevailing rate of exchange at the date of the transaction. At the year end, monetary assets and liabilities denominated in foreign currencies are retranslated at the rates of exchange prevailing at the statement of financial position date. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated using the rate of exchange as at the dates of the initial transactions. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated using the rate of exchange at the date the fair value was determined. All foreign exchange gains and losses are taken to the consolidated income statement with the exception of exchange differences arising on monetary assets and liabilities that form part of the group's net investment in subsidiaries. These are taken directly to statement of changes in equity until the disposal of the net investment at which time they are recognised in the consolidated income statement.

The statement of financial positions of overseas subsidiaries, joint ventures and associates are translated into US Dollars using the closing rate method, whereby assets and liabilities are translated at the rates of exchange prevailing at the statement of financial position date. The income statements of overseas subsidiaries and joint ventures are translated at average exchange rates for the year. Exchange differences arising on the retranslation of net assets are taken directly to other reserves within statement of changes in equity.

On the disposal of a foreign entity, accumulated exchange differences are recognised in the consolidated income statement as a component of the gain or loss on disposal.

### Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Cost comprises the purchase price or construction cost and any costs directly attributable to making that asset capable of operating as intended. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. Depreciation is provided on a straight-line basis other than on oil & gas assets at the following rates:

| | |
|---|---|
| Oil & gas facilities | 10% – 12.5% |
| Plant and equipment | 4% – 33% |
| Buildings and leasehold improvements | 5% – 33% (or lease term if shorter) |
| Office furniture and equipment | 25% – 100% |
| Vehicles | 20% – 33% |

Tangible oil & gas assets are depreciated, on a field-by-field basis, using the unit-of-production method based on entitlement to proven and probable reserves, taking account of estimated future development expenditure relating to those reserves.

Each asset's estimated useful life, residual value and method of depreciation are reviewed and adjusted if appropriate at each financial year end.

No depreciation is charged on land or assets under construction.

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised. Gains are not classified as revenue.

### Non-current assets held for sale

Non-current assets or disposal groups are classified as held for sale when it is expected that the carrying amount of an asset will be recovered principally through sale rather than continuing use. Assets are not depreciated when classified as held for sale.

### Borrowing costs

Borrowing costs directly attributable to the construction of qualifying assets, which are assets that necessarily take a substantial period of time to prepare for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognised as interest payable in the consolidated income statement in the period in which they are incurred.

### Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity at the date of acquisition. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that such carrying value may be impaired. All transaction costs associated with business combinations post 1 January 2010 are charged to the consolidated income statement in the year of such combination.

For the purpose of impairment testing, goodwill acquired is allocated to the cash-generating units that are expected to benefit from the synergies of the combination. Each unit or units to which goodwill is allocated represents the lowest level within the group at which the goodwill is monitored for internal management purposes and is not larger than an operating segment determined in accordance with IFRS8 'Operating Segments'.

Impairment is determined by assessing the recoverable amount of the cash-generating units to which the goodwill relates. Where the recoverable amount of the cash-generating units is less than the carrying amount of the cash-generating units and related goodwill, an impairment loss is recognised.

Where goodwill has been allocated to cash-generating units and part of the operation within those units is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating units retained.

### Deferred consideration payable on acquisition

When, as part of a business combination, the group defers a proportion of the total purchase consideration payable for an acquisition, the amount provided for is the acquisition date fair value of the consideration. The unwinding of the discount element is recognised as a finance cost in the income statement. For business combinations prior to 1 January 2010, all changes in estimated deferred consideration payable on acquisition is adjusted against the carried goodwill. For business combinations after 1 January 2010,

changes in estimated deferred consideration payable on acquisition are recognised in the consolidated income statement unless they are measurement period adjustments which are as a result of additional information obtained after the acquisition date about the facts and circumstances existing at the acquisition date, which are adjusted against carried goodwill.

**Intangible assets – non oil & gas assets**
Intangible assets acquired in a business combination are initially measured at cost being their fair values at the date of acquisition and are recognised separately from goodwill where the asset is separable or arises from a contractual or other legal right and its fair value can be measured reliably. After initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets with a finite life are amortised over their useful economic life using a straight line method unless a better method reflecting the pattern in which the asset's future economic benefits are expected to be consumed can be determined. The amortisation charge in respect of intangible assets is included in the selling, general and administration expenses line of the consolidated income statement. The expected useful lives of assets are reviewed on an annual basis. Any change in the useful life or pattern of consumption of the intangible asset is treated as a change in accounting estimate and is accounted for prospectively by changing the amortisation period or method. Intangible assets are tested for impairment whenever there is an indication that the asset may be impaired.

**Oil & gas assets**
Capitalised costs
The group's activities in relation to oil & gas assets are limited to assets in the evaluation, development and production phases.

Oil & gas evaluation and development expenditure is accounted for using the successful efforts method of accounting.

Evaluation expenditures
Expenditure directly associated with evaluation (or appraisal) activities is capitalised as an intangible asset. Such costs include the costs of acquiring an interest, appraisal well drilling costs, payments to contractors and an appropriate share of directly attributable overheads incurred during the evaluation phase. For such appraisal activity, which may require drilling of further wells, costs continue to be carried as an asset whilst related hydrocarbons are considered capable of commercial development. Such costs are subject to technical, commercial and management review to confirm the continued intent to develop, or otherwise extract value. When this is no longer the case, the costs are written-off in the income statement. When such assets are declared part of a commercial development, related costs are transferred to tangible oil & gas assets. All intangible oil & gas assets are assessed for any impairment prior to transfer and any impairment loss is recognised in the consolidated income statement.

Development expenditures
Expenditure relating to development of assets which include the construction, installation and completion of infrastructure facilities such as platforms, pipelines and development wells, is capitalised within property, plant and equipment.

Changes in unit-of-production factors
Changes in factors which affect unit-of-production calculations are dealt with prospectively, not by immediate adjustment of prior years' amounts.

Decommissioning
Provision for future decommissioning costs is made in full when the group has an obligation to dismantle and remove a facility or an item of plant and to restore the site on which it is located, and when a reasonable estimate of that liability can be made. The amount recognised is the present value of the estimated future expenditure. An amount equivalent to the discounted initial provision for decommissioning costs is capitalised and amortised over the life of the underlying asset on a unit-of-production basis over proven and probable reserves. Any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the oil & gas asset.

The unwinding of the discount applied to future decommissioning provisions is included under finance costs in the income statement.

**Available-for-sale financial assets**
Investments classified as available-for-sale are initially stated at fair value, including acquisition charges associated with the investment.

After initial recognition, available-for-sale financial assets are measured at their fair value using quoted market rates or in the absence of market data other fair value calculation methodologies. Gains and losses are recognised as a separate component of equity until the investment is sold or impaired, at which time the cumulative gain or loss previously reported in equity is included in the consolidated income statement.

**Impairment of assets (excluding goodwill)**
At each statement of financial position date, the group reviews the carrying amounts of its tangible and intangible assets to assess whether there is an indication that those assets may be impaired. If any such indication exists, the group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows attributable to the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment is treated as a revaluation increase.

**Inventories**
Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Cost comprises purchase price, cost of production, transportation and other directly allocable expenses. Costs of inventories, other than raw materials, are determined using the first-in-first-out method. Costs of raw materials are determined using the weighted average method.

# Notes to the consolidated financial statements continued
For the year ended 31 December 2010

## 2 Summary of significant accounting policies continued

### Work in progress and billings in excess of cost and estimated earnings

Fixed price lump sum engineering, procurement and construction contracts are presented in the statement of financial position as follows:

- for each contract, the accumulated cost incurred, as well as the estimated earnings recognised at the contract's percentage of completion less provision for any anticipated losses, after deducting the progress payments received or receivable from the customers, are shown in current assets in the statement of financial position under 'Work in progress'
- where the payments received or receivable for any contract exceed the cost and estimated earnings less provision for any anticipated losses, the excess is shown as 'Billings in excess of cost and estimated earnings' within current liabilities

### Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for any amounts estimated to be uncollectable. An estimate for doubtful debts is made when there is objective evidence that the collection of the full amount is no longer probable under the terms of the original invoice. Impaired debts are derecognised when they are assessed as uncollectable.

### Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purpose of the cash flow statement, cash and cash equivalents consists of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

### Interest-bearing loans and borrowings

All interest-bearing loans and borrowings are initially recognised at the fair value of the consideration received net of issue costs directly attributable to the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

### Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised in the consolidated income statement as a finance cost.

### Derecognition of financial assets and liabilities

#### Financial assets

A financial asset (or, where applicable a part of a financial asset) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the group has transferred its rights to receive cash flows from the asset and either a) has transferred substantially all the risks and rewards of the asset, or b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

#### Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

If an existing financial liability is replaced by another from the same lender, on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in the consolidated income statement.

### Pensions and other long-term employment benefits

The group has various defined contribution pension schemes in accordance with the local conditions and practices in the countries in which it operates. The amount charged to the consolidated income statement in respect of pension costs reflects the contributions payable in the year. Differences between contributions payable during the year and contributions actually paid are shown as either accrued liabilities or prepaid assets in the statement of financial position.

The group's other long-term employment benefits are provided in accordance with the labour laws of the countries in which the group operates, further details of which are given in note 27.

### Share-based payment transactions

Employees (including directors) of the group receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

#### Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. In valuing equity-settled transactions, no account is taken of any service or performance conditions, other than conditions linked to the price of the shares of Petrofac Limited ('market conditions'), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the relevant employees become fully entitled to the award (the 'vesting period'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the group's best estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance conditions are satisfied. Equity awards cancelled are treated as vesting immediately on the date of cancellation, and any expense not recognised for the award at that date is recognised in the income statement.

### Petrofac Employee Benefit Trust

The Petrofac Employee Benefit Trust was established on 7 March 2007 to warehouse ordinary shares purchased to satisfy various new share scheme awards made to the employees of the Company, which will be transferred to the members of the scheme on their respective vesting dates subject to satisfying the performance conditions of each scheme. The trust has been presented as part of both the Company and group financial statements in accordance with SIC 12 'Special Purpose Entities'. The cost of shares temporarily held by Petrofac Employee Benefit Trust is reflected as treasury shares and deducted from equity.

**Leases**
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys the right to use the asset.

The group has entered into various operating leases the payments for which are recognised as an expense in the consolidated income statement on a straight-line basis over the lease terms.

**Revenue recognition**
Revenue is recognised to the extent that it is probable economic benefits will flow to the group and the revenue can be reliably measured. The following specific recognition criteria also apply:

Engineering, procurement and construction services (Engineering & Construction)
Revenues from fixed-price lump-sum contracts are recognised on the percentage-of-completion method, based on surveys of work performed once the outcome of a contract can be estimated reliably. In the early stages of contract completion, when the outcome of a contract cannot be estimated reliably, contract revenues are recognised only to the extent of costs incurred that are expected to be recoverable.

Revenues from cost-plus-fee contracts are recognised on the basis of costs incurred during the year plus the fee earned measured by the cost-to-cost method.

Revenues from reimbursable contracts are recognised in the period in which the services are provided based on the agreed contract schedule of rates.

Provision is made for all losses expected to arise on completion of contracts entered into at the statement of financial position date, whether or not work has commenced on these contracts.

Incentive payments are included in revenue when the contract is sufficiently advanced that it is probable that the specified performance standards will be met or exceeded and the amount of the incentive payments can be measured reliably. Claims and variation orders are only included in revenue when negotiations have reached an advanced stage such that it is probable the claim/variation orders will be accepted and can be measured reliably.

Facilities management, engineering and training services (Offshore Engineering & Operations, Engineering, Training Services and Production Solutions)
Revenues from reimbursable contracts are recognised in the period in which the services are provided based on the agreed contract schedule of rates.

Revenues from fixed-price contracts are recognised on the percentage-of-completion method, measured by milestones completed or earned value once the outcome of a contract can be estimated reliably. In the early stages of contract completion, when the outcome of a contract cannot be estimated reliably, contract revenues are recognised only to the extent of costs incurred that are expected to be recoverable.

Incentive payments are included in revenue when the contract is sufficiently advanced that it is probable that the specified performance standards will be met or exceeded and the amount of the incentive payments can be measured reliably. Claims are only included in revenue when negotiations have reached an advanced stage such that it is probable the claim will be accepted and can be measured reliably.

Oil & gas activities (Energy Developments)
Oil & gas revenues comprise the group's share of sales from the processing or sale of hydrocarbons on an entitlement basis, when the significant risks and rewards of ownership have been passed to the buyer.

**Pre-contract/bid costs**
Pre-contract/bid costs incurred are recognised as an expense until there is a high probability that the contract will be awarded, after which all further costs are recognised as assets and expensed out over the life of the contract.

**Income taxes**
Income tax expense represents the sum of current income tax and deferred tax.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from, or paid to the taxation authorities. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position date.

Deferred income tax is recognised on all temporary differences at the statement of financial position date between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that a taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised

The carrying amount of deferred income tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilised. Unrecognised deferred income tax assets are reassessed at each statement of financial position date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the asset is realised or the liability is settled, based on tax rates and tax laws enacted or substantively enacted at the statement of financial position date.

Current and deferred income tax is charged or credited directly to other comprehensive income or equity if it relates to items that are credited or charged to respectively, other comprehensive income or equity. Otherwise, income tax is recognised in the consolidated income statement.

# Notes to the consolidated financial statements continued
For the year ended 31 December 2010

## 2 Summary of significant accounting policies continued

### Derivative financial instruments and hedging

The group uses derivative financial instruments such as forward currency contracts, interest rate collars and swaps and oil price collars and forward contracts to hedge its risks associated with foreign currency, interest rate and oil price fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives that do not qualify for hedge accounting are taken to the consolidated income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate cap, swap and oil price collar contracts is determined by reference to market values for similar instruments.

For the purposes of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability; or
- cash flow hedges when hedging exposure to variability in cash
- flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction

The group formally designates and documents the relationship between the hedging instrument and the hedged item at the inception of the transaction, as well as its risk management objectives and strategy for undertaking various hedge transactions. The documentation also includes identification of the hedging instrument, the hedged item or transaction, the nature of risk being hedged and how the group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in the hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items.

The treatment of gains and losses arising from revaluing derivatives designated as hedging instruments depends on the nature of the hedging relationship, as follows:

#### Cash flow hedges

For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly in statement of changes in equity, while the ineffective portion is recognised in the income statement. Amounts taken to equity are transferred to the income statement when the hedged transaction affects the consolidated income statement.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in statement of changes in equity is immediately transferred to the consolidated income statement.

#### Embedded derivatives

Contracts are assessed for the existence of embedded derivatives at the date that the group first becomes party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. Embedded derivatives which are not clearly and closely related to the underlying asset, liability or transaction are separated and accounted for as standalone derivatives.

## 3 Segment information

For management purposes Petrofac is organised into seven main types of business unit activities which have been split into four reportable segments below. Whilst Engineering, Training Services and Production Solutions are three fairly diverse businesses none have ever met the quantitative thresholds set by IFRS 8 'Operating Segments' for determining reportable segments.

The four reportable segments shown below consist of:

- Engineering & Construction which provides engineering, procurement and construction project execution services to the onshore oil & gas industry
- Offshore Engineering & Operations which provides operations management services to the offshore oil & gas industry
- Energy Developments which co-invests with partners in oil & gas production, processing and transportation assets
- Engineering, Training Services and Production Solutions activities consist of the provision of early stage engineering services such as conceptual FEED studies, oil & gas related technical competency training and consultancy services and production improvement services under value aligned commercial structures

Management separately monitors the trading results of its seven business units for the purpose of making an assessment of their performance and making decisions about how resources are allocated to them. Each business unit/segment performance is measured based on its profitability which is reflected in a manner consistent with the results shown below. However, certain shareholder services related overheads, group financing and consolidation adjustments are managed at a corporate level and are not allocated to operating segments.

The following tables represent revenue and profit information relating to the group's reporting segments for the year ended 31 December 2010.

### Year ended 31 December 2010

| | Engineering & Construction US$'000 | Offshore Engineering & Operations US$'000 | Engineering, Training Services & Production Solutions US$'000 | Energy Developments US$'000 | Corporate & others US$'000 | Consolidation adjustments & eliminations US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | |
| External sales | 3,232,174 | 710,080 | 223,748 | 188,215 | – | – | 4,354,217 |
| Inter-segment sales | 21,732 | 11,821 | 131,538 | – | – | (165,091) | – |
| **Total revenue** | **3,253,906** | **721,901** | **355,286** | **188,215** | **–** | **(165,091)** | **4,354,217** |
| **Segment results** | 438,867 | 24,506 | 26,590 | 66,290 | (900) | (3,362) | 551,991 |
| Gain on EnQuest demerger | – | – | – | 124,864 | – | – | 124,864 |
| Unallocated corporate costs | – | – | – | – | (13,405) | – | (13,405) |
| Profit/(loss) before tax and finance income/(costs) | 438,867 | 24,506 | 26,590 | 191,154 | (14,305) | (3,362) | 663,450 |
| Share of loss of associate | – | – | – | (131) | – | – | (131) |
| Finance costs | – | (968) | (696) | (3,121) | (3,659) | 3,313 | (5,131) |
| Finance income | 9,741 | 209 | 525 | 348 | 2,699 | (3,313) | 10,209 |
| Profit/(loss) before income tax | 448,608 | 23,747 | 26,419 | 188,250 | (15,265) | (3,362) | 668,397 |
| Income tax (expense)/income | (75,550) | (6,519) | 1,144 | (31,895) | 2,275 | – | (110,545) |
| Non-controlling interests | (35) | – | – | – | – | – | (35) |
| **Profit/(loss) for the year attributable to Petrofac Limited shareholders** | **373,023** | **17,228** | **27,563** | **156,355** | **(12,990)** | **(3,362)** | **557,817** |
| **Other segment information** | | | | | | | |
| Capital expenditures: | | | | | | | |
| Property, plant and equipment | 62,088 | 2,785 | 6,857 | 41,112 | 4,575 | (1,178) | 116,239 |
| Intangible oil & gas assets | – | – | – | 15,644 | – | – | 15,644 |
| Charges: | | | | | | | |
| Depreciation | 34,340 | 2,238 | 7,206 | 49,816 | 367 | (575) | 93,392 |
| Amortisation | 1,044 | 597 | 870 | – | – | – | 2,511 |
| Other long-term employment benefits | 10,435 | 613 | 1,581 | 54 | 87 | – | 12,770 |
| Share-based payments | 7,693 | 1,167 | 1,896 | 1,121 | 2,907 | – | 14,784 |

# Notes to the consolidated financial statements continued
For the year ended 31 December 2010

## 3 Segment information continued

**Year ended 31 December 2009 (restated)**

| | Restated Engineering & Construction US$'000 | Offshore Engineering & Operations US$'000 | Engineering, Training Services & Production Solutions US$'000 | Energy Developments US$'000 | Corporate & others US$'000 | Consolidation adjustments & eliminations US$'000 | Restated Total US$'000 |
|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | |
| External sales | 2,508,951 | 616,542 | 281,225 | 248,708 | – | – | 3,655,426 |
| Inter-segment sales | – | 10,178 | 68,431 | – | – | (78,609) | – |
| **Total revenue** | 2,508,951 | 626,720 | 349,656 | 248,708 | – | (78,609) | 3,655,426 |
| **Segment results** | 312,374 | 17,830 | 34,483 | 77,395 | (1,615) | (326) | 440,141 |
| Unallocated corporate costs | – | – | – | – | (8,181) | – | (8,181) |
| Profit/(loss) before tax and finance income/(costs) | 312,374 | 17,830 | 34,483 | 77,395 | (9,796) | (326) | 431,960 |
| Finance costs | – | (258) | (1,582) | (10,702) | (5,705) | 12,665 | (5,582) |
| Finance income | 14,087 | 94 | 313 | 64 | 10,049 | (12,665) | 11,942 |
| Profit/(loss) before income tax | 326,461 | 17,666 | 33,214 | 66,757 | (5,452) | (326) | 438,320 |
| Income tax (expense)/income | (61,328) | (4,853) | (672) | (20,566) | 3,095 | (191) | (84,515) |
| Minority interests | (14) | – | (188) | – | – | – | (202) |
| **Profit/(loss) for the year attributable to Petrofac Limited shareholders** | 265,119 | 12,813 | 32,354 | 46,191 | (2,357) | (517) | 353,603 |
| **Other segment information** | | | | | | | |
| Capital expenditures: | | | | | | | |
| Property, plant and equipment | 51,821 | 3,400 | 6,682 | 309,824 | 4,686 | (1,014) | 375,399 |
| Intangible oil & gas assets | – | – | – | 29,230 | – | – | 29,230 |
| Charges: | | | | | | | |
| Depreciation | 24,525 | 1,887 | 7,482 | 78,677 | 251 | (918) | 111,904 |
| Amortisation | 415 | – | 668 | – | – | – | 1,083 |
| Impairment | – | – | – | 4,793 | – | – | 4,793 |
| Other long-term employment benefits | 7,779 | 833 | 1,736 | 52 | 38 | – | 10,438 |
| Share-based payments | 6,213 | 1,263 | 2,258 | 1,337 | 2,192 | – | 13,263 |

### Geographical segments

The following tables present revenue from external customers based on their location and non-current assets by geographical segments for the years ended 31 December 2010 and 2009.

**Year ended 31 December 2010**

| | Algeria US$'000 | United Arab Emirates US$'000 | United Kingdom US$'000 | Kuwait US$'000 | Oman US$'000 | Syria US$'000 | Saudi Arabia US$'000 | Other countries US$'000 | Consolidated US$'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Revenues from external customers** | **1,037,966** | **798,328** | **753,842** | **360,624** | **350,313** | **277,196** | **235,936** | **540,012** | **4,354,217** |

| | United Kingdom US$'000 | United Arab Emirates US$'000 | Tunisia US$'000 | Algeria US$'000 | Malaysia US$'000 | Indonesia US$'000 | Other countries US$'000 | Consolidated US$'000 |
|---|---|---|---|---|---|---|---|---|
| **Non-current assets:** | | | | | | | | |
| Property, plant and equipment | 54,326 | 94,292 | 52,031 | 30,737 | 14,836 | 1,555 | 39,381 | 287,158 |
| Intangible oil & gas assets | – | – | – | – | 69,532 | – | – | 69,532 |
| Other intangible assets | 9,365 | – | – | – | – | 6,940 | – | 16,305 |
| Goodwill | 90,093 | 15,240 | – | – | – | – | 499 | 105,832 |

**Year ended 31 December 2009**

| | United Kingdom US$'000 | United Arab Emirates US$'000 | Syria US$'000 | Algeria US$'000 | Oman US$'000 | Kuwait US$'000 | Kazakhstan US$'000 | Other countries US$'000 | Consolidated US$'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Revenues from external customers** | 705,281 | 695,118 | 530,269 | 492,378 | 380,601 | 203,577 | 184,305 | 463,897 | 3,655,426 |

| | United Kingdom US$'000 | Tunisia US$'000 | United Arab Emirates US$'000 | Algeria US$'000 | Malaysia US$'000 | Other countries US$'000 | Consolidated US$'000 |
|---|---|---|---|---|---|---|---|
| **Non-current assets:** | | | | | | | |
| Property, plant and equipment | 447,591 | 57,078 | 74,093 | 55,229 | 25,279 | 18,726 | 677,996 |
| Intangible oil & gas assets | – | – | – | – | 53,888 | – | 53,888 |
| Other intangible assets | 11,654 | – | – | – | – | 7,565 | 19,219 |
| Goodwill | 85,155 | – | 12,099 | – | – | 668 | 97,922 |

Revenues disclosed in the above tables are based on where the project is located. Revenue from two customers amounted to S$1,422,410,000 (2009: US$801,723,000) in the Engineering & Construction segment.

## 4 Revenues and expenses

### a. Revenue

| | 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| Rendering of services | **4,202,371** | 3,446,037 |
| Sale of crude oil & gas | **146,075** | 202,770 |
| Sale of processed hydrocarbons | **5,771** | 6,619 |
| | **4,354,217** | 3,655,426 |

Included in revenues from rendering of services are Offshore Engineering & Operations, Engineering, Training Services and Production Solutions revenues of a 'pass-through' nature with zero or low margins amounting to US$227,974,000 (2009: US$230,262,000).

### b. Cost of sales

Included in cost of sales for the year ended 31 December 2010 is US$154,000 (2009: US$908,000 gain) gain on disposal of property, plant and equipment used to undertake various engineering and construction contracts. In addition depreciation charged on property, plant and equipment of US$85,186,000 during 2010 (2009: US$104,997,000) is included in cost of sales (note 9).

Also included in cost of sales are forward points and ineffective portions on derivatives designated as cash flow hedges and loss on maturity of undesignated derivatives of US$3,409,000 (2009: US$19,508,000 gain). These amounts are an economic hedge but do not meet the criteria within IAS39 and are most appropriately recorded in cost of sales.

### c. Selling, general and administration expenses

| | 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| Staff costs | **126,475** | 94,583 |
| Depreciation | **8,206** | 6,907 |
| Amortisation (note 13) | **2,511** | 1,083 |
| Impairment | **–** | 4,793 |
| Other operating expenses | **84,257** | 78,927 |
| | **221,449** | 186,293 |

Other operating expenses consist mainly of office, travel, legal and professional and contracting staff costs.

### d. Staff costs

| | 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| **Total staff costs:** | | |
| Wages and salaries | **828,439** | 708,684 |
| Social security costs | **31,809** | 27,877 |
| Defined contribution pension costs | **12,621** | 11,155 |
| Other long-term employee benefit costs (note 27) | **12,770** | 10,438 |
| Expense of share-based payments (note 24) | **14,784** | 13,263 |
| | **900,423** | 771,417 |

# Notes to the consolidated financial statements continued

For the year ended 31 December 2010

## 4 Revenues and expenses continued

Of the US$900,423,000 (2009: US$771,417,000) of staff costs shown above, US$773,948,000 (2009: US$676,834,000) are included in cost of sales, with the remainder in selling, general and administration expenses.

The average number of persons employed by the group during the year was 12,807 (2009: 11,628).

### e. Auditors' remuneration

The group paid the following amounts to its auditors in respect of the audit of the financial statements and for other services provided to the group:

| | 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| Audit of the group financial statements | **1,209** | 1,369 |
| **Other fees to auditors:** | | |
| Local statutory audits of subsidiaries | **812** | 546 |
| Tax services | **520** | 178 |
| All other services | **93** | 15 |
| | **2,634** | 2,108 |

### f. Other income

| | 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| Foreign exchange gains | **720** | 2,342 |
| Gain on sale of property, plant and equipment | **8** | – |
| Gain on sale of intangible assets | **2,338** | – |
| Other income | **1,947** | 1,733 |
| | **5,013** | 4,075 |

### g. Other expenses

| | 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| Foreign exchange losses | **3,452** | 2,675 |
| Loss on sale of property, plant and equipment | **477** | 124 |
| Other expenses | **124** | 199 |
| | **4,053** | 2,998 |

## 5 Finance (costs)/income

| | 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| **Interest payable:** | | |
| Long-term borrowings | **(2,908)** | (3,171) |
| Other interest, including short-term loans and overdrafts | **(581)** | (310) |
| Unwinding of discount on deferred consideration and decommissioning provisions | **(1,642)** | (2,101) |
| Total finance cost | **(5,131)** | (5,582) |
| **Interest receivable:** | | |
| Bank interest receivable | **9,945** | 11,487 |
| Other interest receivable | **264** | 455 |
| Total finance income | **10,209** | 11,942 |

## 6 Income tax

### a. Tax on ordinary activities

The major components of income tax expense are as follows:

| | 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| **Current income tax** | | |
| Current income tax charge | **115,199** | 100,985 |
| Adjustments in respect of current income tax of previous years | **(2,843)** | (31,448) |
| **Deferred income tax** | | |
| Relating to origination and reversal of temporary differences | **907** | 5,570 |
| Adjustments in respect of deferred income tax of previous years | **(2,718)** | 9,408 |
| Income tax expense reported in the income statement | **110,545** | 84,515 |

**b. Reconciliation of total tax charge**

A reconciliation between the income tax expense and the product of accounting profit multiplied by the Company's domestic tax rate is as follows:

| | 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| **Accounting profit before tax (including gain on EnQuest demerger)** | **668,397** | 438,320 |
| At Jersey's domestic income tax rate of 0% (2009: 0%) | – | – |
| Expected tax charge in higher rate jurisdictions | 116,199 | 107,320 |
| Expenditure not allowable for income tax purposes | 1,073 | 14,706 |
| Income not taxable | – | (396) |
| Adjustments in respect of previous years | (5,561) | (22,040) |
| Tax effect of utilisation of tax losses not previously recognised | (568) | (252) |
| Unrecognised tax losses | 1,634 | 618 |
| Other permanent differences | (2,157) | (15,441) |
| Effect of change in tax rates | (75) | – |
| **At the effective income tax rate of 16.5% (2009: 19.3%)** | **110,545** | 84,515 |

The group's effective tax rate for the year ended 31 December 2010, including the US$124,864,000 gain on the demerger of Energy Development's UKCS business is 16.5% and excluding this gain, the effective tax rate is 20.3% (2009: 19.3%).

On 5 April 2010, the group completed the demerger of its UKCS business to EnQuest PLC, an independent company which is listed on the London and Stockholm stock exchanges. No chargeable gain arose on the transaction for UK corporate tax purposes. This decreased the group's effective tax rate for the period.

Excluding the gain from the demerger, there has been a small increase in the group's effective tax rate. Factors contributing to this increase compared to 2009 include ring fence expenditure supplement no longer being available for claim following the demerger of Petrofac Energy Developments Limited, no additional adjustments being made in respect of the applicability of the lower tax rate to the group's project in Oman, material changes in jurisdictions in which profits are expected to be earned by the Engineering & Construction reporting segment and due to recent acquisitions. There has also been an increase in reportable profit within taxable jurisdictions. In June 2010, the UK Government announced its intention to propose to Parliament to reduce the UK corporation tax rate from 28% to 24% over the course of four years. From 1 April 2011 the UK corporate rate is 27% and will impact the reversal of the temporary difference from this date onwards, reducing the UK tax assets and liabilities. This UK tax rate change has been substantively enacted at the statement of financial position date.

**c. Deferred income tax**

Deferred income tax relates to the following:

| | Consolidated Statement of Financial Position | | Consolidated Income Statement | |
|---|---|---|---|---|
| | 2010 US$'000 | 2009 US$'000 | 2010 US$'000 | 2009 US$'000 |
| **Deferred income tax liabilities** | | | | |
| Fair value adjustment on acquisitions | 1,412 | 2,599 | (597) | (139) |
| Accelerated depreciation | 36,580 | 27,515 | 14,630 | 15,472 |
| Other temporary differences | 10,094 | 12,078 | (4,336) | (1,441) |
| Gross deferred income tax liabilities | 48,086 | 42,192 | | |
| **Deferred income tax assets** | | | | |
| Losses available for offset | 2,259 | 18,413 | (14,135) | (11,130) |
| Decelerated depreciation for tax purposes | 2,404 | 7,596 | 327 | 9,409 |
| Share scheme | 15,721 | 18,636 | (230) | (1,142) |
| Other temporary differences | 5,917 | 5,081 | 2,530 | 3,949 |
| Gross deferred income tax assets | 26,301 | 49,726 | | |
| Deferred income tax (credit)/charge | | | (1,811) | 14,978 |

# Notes to the consolidated financial statements continued
For the year ended 31 December 2010

## 6 Income tax continued
### d. Unrecognised tax losses and tax credits
Deferred income tax assets are recognised for tax loss carry-forwards and tax credits to the extent that the realisation of the related tax benefit through future taxable profits is probable. The group did not recognise deferred income tax assets of US$18,366,000 (2009: US$15,452,000).

| | 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| **Expiration dates for tax losses** | | |
| No earlier than 2022 | **9,466** | 11,451 |
| No expiration date | **6,384** | 3,360 |
| | **15,850** | 14,811 |
| Tax credits (no expiration date) | **2,516** | 641 |
| | **18,366** | 15,452 |

## 7 Earnings per share
Basic earnings per share amounts are calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary shareholders, after adjusting for any dilutive effect, by the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of ordinary shares granted under the employee share award schemes which are held in trust.

The following reflects the income and share data used in calculating basic and diluted earnings per share:

| | 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| Net profit attributable to ordinary shareholders for basic and diluted earnings per share excluding gain on EnQuest demerger | **432,953** | 353,603 |
| Net profit attributable to ordinary shareholders for basic and diluted earnings per share including gain on EnQuest demerger | **557,817** | 353,603 |

| | 2010 Number '000 | 2009 Number '000 |
|---|---|---|
| Weighted average number of ordinary shares for basic earnings per share | **338,867** | 337,473 |
| Effect of diluted potential ordinary shares granted under share-based payment schemes | **4,493** | 5,187 |
| Adjusted weighted average number of ordinary shares for diluted earnings per share | **343,360** | 342,660 |

## 8 Dividends paid and proposed

| | 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| **Declared and paid during the year** | | |
| **Equity dividends on ordinary shares:** | | |
| Final dividend for 2008: 17.90 cents per share | **–** | 60,332 |
| Interim dividend 2009: 10.70 cents per share | **–** | 36,197 |
| Final dividend for 2009: 25.10 cents per share | **85,291** | – |
| Interim dividend 2010: 13.80 cents per share | **46,757** | – |
| | **132,048** | 96,529 |

| | 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| **Proposed for approval at AGM** (not recognised as a liability as at 31 December) | | |
| **Equity dividends on ordinary shares** | | |
| Final dividend for 2010: 30.00 cents per share (2009: 25.10 cents per share) | **103,715** | 86,729 |

## 9 Property, plant and equipment

| | Oil & gas assets US$'000 | Oil & gas facilities US$'000 | Land, buildings and leasehold improvements US$'000 | Plant and equipment US$'000 | Vehicles US$'000 | Office furniture and equipment US$'000 | Assets under construction US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| At 1 January 2009 | 279,103 | 125,371 | 83,088 | 22,235 | 6,574 | 69,047 | – | 585,418 |
| Additions | 276,798 | 32,612 | 32,632 | 4,273 | 4,907 | 17,663 | 6,514 | 375,399 |
| Disposals | – | – | (1,474) | (4,631) | (789) | (3,366) | – | (10,260) |
| Exchange difference | – | – | 1,296 | 1,103 | 204 | 3,745 | 165 | 6,513 |
| At 1 January 2010 | 555,901 | 157,983 | 115,542 | 22,980 | 10,896 | 87,089 | 6,679 | 957,070 |
| Additions | 32,252 | 7,602 | 44,114 | 1,445 | 4,755 | 19,238 | 6,833 | 116,239 |
| Acquisition of subsidiaries | – | – | – | 2,081 | 46 | 43 | – | 2,170 |
| Disposals | (470,447) | – | (1,847) | (2,344) | (854) | (17,268) | – | (492,760) |
| Transfers | – | – | 881 | 4 | – | (885) | – | – |
| Exchange difference | – | – | (462) | (712) | (158) | (809) | (132) | (2,273) |
| **At 31 December 2010** | **117,706** | **165,585** | **158,228** | **23,454** | **14,685** | **87,408** | **13,380** | **580,446** |
| **Depreciation** | | | | | | | | |
| At 1 January 2009 | (16,187) | (87,026) | (7,983) | (16,512) | (4,235) | (40,411) | – | (172,354) |
| Charge for the year | (60,984) | (15,254) | (14,998) | (3,571) | (2,254) | (14,843) | – | (111,904) |
| Disposals | – | – | 1,330 | 4,516 | 740 | 3,150 | – | 9,736 |
| Exchange difference | – | – | (379) | (1,051) | (37) | (3,085) | – | (4,552) |
| At 1 January 2010 | (77,171) | (102,280) | (22,030) | (16,618) | (5,786) | (55,189) | – | (279,074) |
| Charge for the year | (32,204) | (15,993) | (23,981) | (2,734) | (3,462) | (15,018) | – | (93,392) |
| Disposals | 59,592 | – | 1,400 | 538 | 769 | 16,072 | – | 78,371 |
| Transfers | – | – | (83) | – | – | 83 | – | – |
| Exchange difference | – | – | 71 | 327 | 28 | 381 | – | 807 |
| **At 31 December 2010** | **(49,783)** | **(118,273)** | **(44,623)** | **(18,487)** | **(8,451)** | **(53,671)** | **–** | **(293,288)** |
| **Net carrying amount:** | | | | | | | | |
| **At 31 December 2010** | **67,923** | **47,312** | **113,605** | **4,967** | **6,234** | **33,737** | **13,380** | **287,158** |
| At 31 December 2009 | 478,730 | 55,703 | 93,512 | 6,362 | 5,110 | 31,900 | 6,679 | 677,996 |

No interest has been capitalised within oil & gas facilities during the year (2009: nil) and the accumulated capitalised interest, net of depreciation at 31 December 2010, was US$432,000 (2009: US$931,000).

Additions to oil & gas assets in 2009 mainly comprise development expenses capitalised on the group's interest in the Don area assets of US$274,114,000. During the year, the Don assets were demerged and as a result oil & gas assets with a net book value of US$410,855,000 were disposed of (note 11).

Included in oil & gas assets are US$2,196,000 (2009: US$50,726,000) of capitalised decommissioning costs net of depreciation provided on the PM304 asset in Malaysia and the Chergui asset in Tunisia. The decrease in the 31 December 2010 oil & gas asset's balance is due to the demerger of the Don area assets in the United Kingdom (note 11).

Of the total charge for depreciation in the income statement, US$85,186,000 (2009: US$104,997,000) is included in cost of sales and US$8,206,000 (2009: US$6,907,000) in selling, general and administration expenses.

Assets under construction comprises of expenditures incurred in relation to the group ERP project.

# Notes to the consolidated financial statements continued
For the year ended 31 December 2010

## 10 Business combinations
### Scotvalve Services Limited
On 14 January 2010, the group acquired a 100% interest in the share capital of Scotvalve Services Limited (Scotvalve), a United Kingdom based company, involved in the servicing and repair of oilfield pressure control equipment. The Scotvalve acquisition will enhance the group's mechanical services offering and expand its geographical footprint. The consideration for the acquisition was Sterling 4,630,000 (equivalent US$7,512,000) comprising of Sterling 2,801,000 (equivalent US$4,545,000) as an initial cash payment, Sterling 150,000 (equivalent US$243,000) to be settled in cash during the year and the balance being the discounted value of deferred consideration amounting to Sterling 1,679,000 (equivalent US$2,724,000) payable based on the estimated future profitability of Scotvalve. The range of deferred consideration payable is from zero to a maximum of Sterling 2,000,000 (equivalent US$3,122,000) over a three year period.

The fair values of the identifiable assets and liabilities of Scotvalve on completion of the acquisition are analysed below:

| | Recognised on acquisition US$'000 | Carrying value US$'000 |
|---|---|---|
| Property, plant and equipment | 1,891 | 1,978 |
| Investments in associates (note 14) | 777 | 777 |
| Intangible assets (note 13) | 1,107 | – |
| Trade and other receivables | 2,606 | 2,606 |
| Cash and short-term deposits | 410 | 410 |
| Total assets | 6,791 | 5,771 |
| **Less:** | | |
| Deferred tax liability | (325) | (16) |
| Income tax liability | (279) | (279) |
| Trade and other payables | (1,220) | (1,220) |
| Total liabilities | (1,824) | (1,515) |
| Fair value of net assets acquired | 4,967 | 4,256 |
| Goodwill arising on acquisition | 2,545 | |
| Consideration at acquisition | 7,512 | |

| | US$'000 |
|---|---|
| **Cash outflow on acquisition:** | |
| Cash acquired with subsidiary | 410 |
| Cash paid on acquisition | (4,545) |
| Net cash outflow on the acquisition of subsidiary | (4,135) |

Intangible assets recognised on acquisition comprise equipment manufacturer warranty repair licenses which are being amortised over their remaining economic useful lives of five years on a straight-line basis.

The residual goodwill above comprises the fair value of expected future synergies and business opportunities arising from the integration of the business in to the group.

From the date of acquisition, Scotvalve has contributed revenues of US$6,903,000 and net income of US$1,020,000 to the net profit of the group. If the above combination had taken place at the beginning of the year, net profit of Scotvalve would have been US$1,020,000 and revenue would have been US$6,903,000.

The transaction costs of Sterling 102,000 (equivalent US$154,000) relating to the acquisition have been expensed in the year and are included within selling, general and administration and are included as cash flows from operating activities in the consolidated cash flow statement.

The deferred consideration payable was re-assessed at year end in light of latest financial projections for the business and the current carried amount was reduced by Sterling 135,000 (equivalent US$208,000) with a corresponding increase in other income within the consolidated income statement.

**Stephen Gillespie Consultants Limited**

On 1 April 2010, the group acquired a 100% interest in the share capital of Stephen Gillespie Consultants Limited (SGC), a United Kingdom based provider of software consultancy to flow metering control system manufacturers for a consideration of Sterling 4,523,000 (equivalent US$6,853,000) comprising of Sterling 3,178,000 (equivalent US$4,815,000) paid upfront in cash and the balance being the discounted value of deferred consideration amounting to Sterling 1,345,000 (equivalent US$2,038,000) payable based on the estimated future revenue of the company. This acquisition will enhance the group's existing metering service offering and also its ability to provide turnkey metering solutions to both brownfield and greenfield international oil & gas projects. The range of deferred consideration payable is from Sterling 600,000 (equivalent US$937,000) to a maximum of Sterling 1,200,000 (equivalent US$1,873,000) based on future revenue of SGC over a two year period.

The fair values of the identifiable assets and liabilities of SGC on completion of the acquisition are analysed below:

| | Recognised on acquisition US$'000 | Carrying value US$'000 |
|---|---|---|
| Property, plant and equipment | 61 | 61 |
| Intangible assets (note 13) | 2,065 | – |
| Trade and other receivables | 1,424 | 1,424 |
| Cash and short-term deposits | 1,920 | 1,920 |
| Total assets | 5,470 | 3,405 |
| | | |
| **Less:** | | |
| Deferred tax liability | (579) | – |
| Income tax liability | (383) | (383) |
| Trade and other payables | (1,126) | (1,254) |
| Total liabilities | (2,088) | (1,637) |
| | | |
| Fair value of net assets acquired | 3,382 | 1,768 |
| Goodwill arising on acquisition | 3,471 | |
| Consideration at acquisition | 6,853 | |

| | US$'000 |
|---|---|
| **Cash outflow on acquisition:** | |
| Cash acquired with subsidiary | 1,920 |
| Cash paid on acquisition | (4,815) |
| Net cash outflow on the acquisition of subsidiary | (2,895) |

Intangible assets recognised on acquisition comprise of software related to metering technology which is being amortised over its remaining economic useful lives of five years on a straight-line basis.

The residual goodwill above comprises the fair value of expected future synergies and business opportunities arising from the integration of the business in to the group.

From the date of acquisition, SGC has contributed revenues of US$6,549,000 and net income of US$165,000 to the net profit of the group. If the above combination had taken place at the beginning of the year, net profit of SGC would have been US$205,000 and revenue would have been US$7,412,000.

The transaction costs of Sterling 65,000 (equivalent US$99,000) relating to the acquisition have been expensed in the year and are included within selling, general and administration and are included as cash flows from operating activities in the consolidated cash flow statement.

The deferred consideration payable was re-assessed at year end in light of latest financial projections for the business and the current carried amount was reduced by Sterling 188,000 (equivalent US$293,000) with a corresponding increase in other income within the consolidated income statement.

# Notes to the consolidated financial statements continued
For the year ended 31 December 2010

## 10 Business combinations continued
### $CO_2$DeepStore Limited
On 27 April 2010, the group acquired a 100% interest in the share capital of $CO_2$DeepStore Limited ($CO_2$DeepStore), a United Kingdom based company focused on the $CO_2$ geological storage sector of the carbon capture and storage market for a cash consideration of Sterling 220,000 (equivalent US$340,000). This acquisition represents the group's first step into the strategically important emerging low carbon energy sector.

The fair values of the identifiable assets and liabilities of $CO_2$DeepStore on completion of the acquisition are analysed below:

| | Recognised on acquisition US$'000 | Carrying value US$'000 |
|---|---|---|
| Property, plant and equipment | 3 | 3 |
| Trade and other receivables | 134 | 134 |
| Cash and short-term deposits | 263 | 263 |
| Total assets | 400 | 400 |
| **Less:** | | |
| Income tax liability | (31) | (31) |
| Trade and other payables | (29) | (29) |
| Total liabilities | (60) | (60) |
| Fair value of net assets acquired | 340 | 340 |
| Goodwill arising on acquisition | – | |
| Consideration at acquisition | 340 | |

| | US$'000 |
|---|---|
| **Cash outflow on acquisition:** | |
| Cash acquired with subsidiary | 263 |
| Cash paid on acquisition | (340) |
| Net cash outflow on the acquisition of subsidiary | (77) |

From the date of acquisition, $CO_2$DeepStore has contributed revenues of US$88,000 and a net loss of US$823,000 to the net profit of the group. If the above combination had taken place at the beginning of the year, net profit of $CO_2$DeepStore would have been US$573,000 and revenue would have been US$905,000.

The transaction costs of Sterling 17,000 (equivalent US$26,000) relating to the acquisition have been expensed in the year and are included within selling, general and administration and are included as cash flows from operating activities in the consolidated cash flow statement.

Under the terms of the acquisition agreement, costs of up to Sterling 200,000 (equivalent US$312,000) will be payable to the former owners of $CO_2$DeepStore three years from the date of completion based on the estimated future profitability of the company and will be recognised as an expense in the income statement over this period. The charge for the current year is Sterling 44,000 (equivalent US$68,000).

**TNEI Services Limited**

On 14 June 2010, the group acquired a 100% interest in the share capital of TNEI Services Limited (TNEI) through the acquisition of its holding company New Energy Industries Limited for a cash consideration of Sterling 6,123,000 (equivalent US$8,913,000). TNEI provides services in the areas of power transmission and distribution, planning and environmental consent and energy management. The acquisition of TNEI further broadens the group's technical consulting services offering in the rapidly developing power and renewable energy markets.

The fair values of the identifiable assets and liabilities of TNEI on completion of the acquisition are analysed below:

| | Recognised on acquisition US$'000 | Carrying value US$'000 |
|---|---|---|
| Property, plant and equipment | 215 | 215 |
| Acquired goodwill | 881 | 881 |
| Trade and other receivables | 1,779 | 1,779 |
| Cash and short-term deposits | 910 | 910 |
| Total assets | 3,785 | 3,785 |
| **Less:** | | |
| Trade and other payables | (1,198) | (1,198) |
| Total liabilities | (1,198) | (1,198) |
| Fair value of net assets acquired | 2,587 | 2,587 |
| Goodwill arising on acquisition | 6,326 | |
| Consideration at acquisition | 8,913 | |

| | US$'000 |
|---|---|
| **Cash outflow on acquisition:** | |
| Cash acquired with subsidiary | 910 |
| Cash paid on acquisition | (8,913) |
| Net cash outflow on the acquisition of subsidiary | (8,003) |

The residual goodwill above comprises the fair value of expected future synergies and business opportunities arising from the integration of the business into the group.

From the date of acquisition, TNEI has contributed revenue of US$3,898,000 and a net loss of US$5,000 to the group. If the above combination had taken place at the beginning of the year, net profit of TNEI would have been US$301,000 and revenue would have been US$6,296,000.

The transaction costs of Sterling 38,000 (equivalent US$58,000) relating to the acquisition have been expensed in the year and are included within selling, general and administration and are included as cash flows from operating activities in the consolidated cash flow statement.

Under the terms of the acquisition agreement, Sterling 1,538,000 (equivalent US$2,370,000) will be payable 50% in Petrofac shares and 50% in cash to the former owners of TNEI who remain as employees of the Petrofac group in three equal tranches over three years from the date of completion which will be recognised as an expense in the income statement on a straight line basis over the three years. The charge for the current year is Sterling 278,000 (equivalent US$428,000).

# Notes to the consolidated financial statements continued
For the year ended 31 December 2010

## 11 Gain on EnQuest demerger
On 5 April 2010, the group's interests in the Don area oil assets were demerged via a transfer of three of its subsidiaries, Petrofac Energy Developments Limited (PEDL), Petrofac Energy Developments Oceania Limited (PEDOL) and PEDL Limited (PEDLL) to EnQuest PLC for a deemed consideration for accounting purposes of US$553,300,000 which was settled by the issue of EnQuest PLC shares directly to Petrofac Limited shareholders*. The gain on the demerger transaction has been computed as follows:

| | US$'000 |
|---|---|
| Fair value of consideration | 553,300 |
| **Less:** | |
| Property, plant and equipment | (410,855) |
| Deferred tax asset | (27,394) |
| Inventories | (5,578) |
| Trade and other receivables | (107,039) |
| Cash and bank | (16,147) |
| Total book value of assets transferred | (567,013) |
| | |
| Provision for decommissioning | 55,967 |
| Trade and other payables | 130,348 |
| Translation reserve | (3,308) |
| Total book value of liabilities transferred | 183,007 |
| Net assets transferred | (384,006) |
| Transaction costs | (1,636) |
| Release of foreign currency translation reserve | (45,818) |
| Allocated goodwill written off (note 12) | (1,146) |
| Other consolidation adjustments | 4,170 |
| Gain on demerger | 124,864 |

*In order to effect the demerger of the PEDL sub group to EnQuest, the existing issued ordinary share capital of Petrofac Limited was subdivided and converted into new ordinary Petrofac shares with a nominal value of US$0.02 each and Petrofac B shares of US$0.005 each and subsequent to this share split the B shares were purchased and cancelled in exchange for an allotment and issue of EnQuest ordinary shares directly to holders of Petrofac B shares.

As a result of this capital re-organisation and purchase of Petrofac B shares US$1,728,000 of Petrofac issued ordinary share capital was extinguished and transferred to retained earnings and the non-cash distribution to Petrofac shareholders for accounting purposes of US$553,300,000 was made via the utilisation of the existing share premium account balance of US$71,172,000 with the remaining amount of US$482,128,000 being transferred out of retained earnings. In addition US$8,803,000 of proceeds generated by the Petrofac Employee Benefit Trust selling its holding of EnQuest shares arising from the demerger have been credited to retained earnings leaving a net impact on retained earnings of US$473,325,000.

## 12 Goodwill
A summary of the movements in goodwill is presented below:

| | **2010 US$'000** | 2009 US$'000 |
|---|---|---|
| At 1 January | **97,922** | 97,534 |
| Acquisitions during the year (note 10) | **13,223** | – |
| Reassessment of deferred consideration payable | **(1,313)** | (8,992) |
| Write off on EnQuest demerger (note 11) | **(1,146)** | – |
| Exchange difference | **(2,854)** | 9,380 |
| **At 31 December** | **105,832** | 97,922 |

Reassessment of deferred consideration payable mainly comprises of the reduction in deferred consideration payable on Caltec Limited of US$4,285,000 (2009: US$2,929,000 decrease) and an increase in deferred consideration payable on SPD Group Limited of US$3,141,000 (2009: US$4,351,000 decrease).

Goodwill acquired through business combinations has been allocated to five groups of cash-generating units, which are operating segments, for impairment testing as follows:
- Offshore Engineering & Operations
- Engineering Services
- Production Solutions
- Training Services
- Energy Developments

These represent the lowest level within the group at which the goodwill is monitored for internal management purposes.

**Offshore Engineering & Operations, Engineering Services, Production Solutions and Training cash-generating units**
The recoverable amounts for the Offshore Engineering & Operations, Engineering Services, Production Solutions and Training units have been determined based on value in use calculations, using discounted pre-tax cash flow projections. Management has adopted a ten-year projection period to assess each unit's value in use as it is confident based on past experience of the accuracy of long-term cash flow forecasts that these projections are reliable. The cash flow projections are based on financial budgets approved by senior management covering a five year period, extrapolated for a further five years at a growth rate of 5% for Offshore Engineering & Operations, Engineering Services and Training cash-generating units and 2.5% per annum for Production Solutions cash-generating unit since it includes newly acquired businesses where there is less historic track record of achieving financial projections.

**Energy Developments cash-generating unit**
The recoverable amount of the Energy Developments unit is also determined on a value in use calculation using discounted pre-tax cash flow projections based on financial budgets and economic assumptions for the unit approved by senior management and covering a five-year period, as referred to in IAS 36.

**Carrying amount of goodwill allocated to each group of cash-generating units**

| | 2010<br>US$'000 | 2009<br>US$'000 |
|---|---|---|
| Offshore Engineering & Operations unit | **27,992** | 22,975 |
| Engineering Services | **7,728** | – |
| Production Solutions unit | **49,739** | 52,496 |
| Training Services unit | **19,302** | 20,234 |
| Energy Developments unit | **1,071** | 2,217 |
| | **105,832** | 97,922 |

**Key assumptions used in value in use calculations**
The calculation of value in use for the Offshore Engineering & Operations, Engineering Services, Production Solutions and Training Services units is most sensitive to the following assumptions:

Market share: the assumption relating to market share for the Offshore Engineering & Operations unit is based on the unit re-securing those existing customer contracts in the UK which are due to expire during the projection period; for the Training Services unit, the key assumptions relate to management's assessment of maintaining the unit's market share in the UK and developing further the business in international markets.

Growth rate: estimates are based on management's assessment of market share having regard to macro-economic factors and the growth rates experienced in the recent past by each unit. A growth rate of 5% per annum has been applied for Offshore Engineering & Operations, Engineering Services and Training Services cash-generating units for the remaining five years of the ten-year projection period and 2.5% per annum for Production Solutions cash-generating unit since it includes newly acquired businesses where there is less historic track record of achieving financial projections.

Net profit margins: estimates are based on management's assumption of achieving a level of performance at least in line with the recent past performance of each of the units.

Discount rate: management has used a pre-tax discount rate of 14.6% per annum for each of Offshore Engineering & Operations (2009: 14.5%), Engineering Services (2009: n/a) Production Solutions (2009: 14.5%) and Training (2009: 14.5%) cash-generating units which are derived from the estimated weighted average cost of capital of the group. This discount rate has been calculated using an estimated risk free rate of return adjusted for the group's estimated equity market risk premium and the group's cost of debt.

The calculation of value in use for the Energy Developments unit is most sensitive to the following assumptions:

Discount rate: management has used an estimate of the pre-tax weighted average cost of capital of the group plus a risk premium to reflect the particular risk characteristics of each individual asset. The discount rate used for 2010 was 13.4% for each asset (2009: 10.5%).

Oil & gas prices: management has used an oil price assumption of US$75.00 (2009: US$70.00) per barrel and a gas price of US$8.73 (2009: US$8.30) per mcf for the impairment testing of its individual oil & gas investments.

Reserve volumes and production profiles: management has used its internally developed economic models of reserves and production as a basis of calculating value in use.

**Sensitivity to changes in assumptions**
Other than the assumed success of the Ticleni contract in Production Solutions with regard to the assessment of value in use of the cash generating units, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the relevant unit to exceed its recoverable amount, after giving due consideration to the macro-economic outlook for the oil & gas industry and the commercial arrangements with customers underpinning the cash flow forecasts for each of the units.

# Notes to the consolidated financial statements continued
For the year ended 31 December 2010

## 13 Intangible assets

| | 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| **Intangible oil & gas assets** | | |
| Cost: | | |
| At 1 January | 53,888 | 43,137 |
| Additions | 15,644 | 29,230 |
| Disposal | – | (18,479) |
| At 31 December | 69,532 | 53,888 |
| Accumulated impairment: | | |
| At 1 January | – | (13,686) |
| Impairment | – | (4,793) |
| Disposal | – | 18,479 |
| At 31 December | – | – |
| Net book value of intangible oil & gas assets at 31 December | 69,532 | 53,888 |
| **Other intangible assets** | | |
| Cost: | | |
| At 1 January | 25,476 | 13,892 |
| Additions on acquisition (note 10) | 3,172 | – |
| Additions | 153 | 10,375 |
| Disposal | (4,220) | – |
| Exchange difference | (43) | 1,209 |
| At 31 December | 24,538 | 25,476 |
| Accumulated amortisation: | | |
| At 1 January | (6,257) | (4,990) |
| Amortisation | (2,511) | (1,083) |
| Disposal | 540 | – |
| Exchange difference | (5) | (184) |
| At 31 December | (8,233) | (6,257) |
| Net book value of other intangible assets at 31 December | 16,305 | 19,219 |
| Total intangible assets | 85,837 | 73,107 |

**Intangible oil & gas assets**
Oil & gas asset (part of the Energy Development segment) additions above comprise of US$15,644,000 (2009: US$29,230,000) of capitalised expenditure on the group's assets in Malaysia.

There were investing cash outflows relating to capitalised intangible oil & gas assets of US$15,644,000 (2009: US$29,230,000) in the current period arising from pre-development activities.

**Other intangible assets**
Other intangible assets comprising customer contracts, proprietary software, LNG intellectual property and patent technology are being amortised over their remaining estimated economic useful life of three, six, eight and ten years respectively on a straight-line basis and the related amortisation charges included in selling, general and administrative expenses (note 4c). During the year, proprietary software was disposed of with a resulting gain disclosed in other income (note 4f).

## 14 Investment in associates

| | 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| Investment in Gateway Storage Company Limited | 15,795 | – |
| Associates acquired through acquisition of Scotvalve (note 10) | 777 | – |
| Share of associate loss | (131) | – |
| Exchange difference | (92) | – |
| | 16,349 | – |

**Gateway Storage Company Limited**
On 6 December 2010, the group acquired a 20% equity interest in Gateway Storage Company Limited (Gateway), an unlisted entity, to progress and develop the Gateway Gas Storage project in the East Irish Sea. The initial cost of the investment was Sterling 5,000,000 (equivalent US$7,795,000) together with, transaction costs of US$664,000 and contracted value of free services to be provided by the group of Sterling 500,000 (equivalent US$780,000). Additional contingent payments may become payable under the terms of the investment, subject to key project development milestones being achieved, including the outcome of further successful equity sales. Deferred consideration of Sterling 4,160,000 (equivalent US$6,556,000) has been estimated as payable using a discounted storage project cash flow model assuming certain project scenarios to which estimated probabilities were assigned by management. The deferred consideration in no event will exceed an additional amount of Sterling 28,000,000 (equivalent US$43,705,000). The share of the associate's statement of financial position is as follows:

| | 2010 US$'000 |
|---|---|
| Non-current assets | 123 |
| Current assets | 3,050 |
| Current liabilities | (795) |
| Equity | 2,378 |
| Transaction costs incurred | 664 |
| Fair value of free services to be provided | 780 |
| Deferred consideration payable | 6,556 |
| Exchange on deferred consideration payable | (63) |
| Residual goodwill | 5,417 |
| Share of loss | (131) |
| **Carrying value of investment** | **15,601** |
| Share of associates revenues and net loss: | |
| Revenue | – |
| Net loss | (131) |

## 15 Interest in joint ventures
In the normal course of business, the group establishes jointly controlled entities for the execution of certain of its operations and contracts. A list of these joint ventures is disclosed in note 35. The group's share of assets, liabilities, revenues and expenses relating to jointly controlled entities is as follows:

| | 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| Revenue | 194,848 | 31,573 |
| Cost of sales | (171,233) | (28,293) |
| Gross profit | 23,615 | 3,280 |
| Selling, general and administration expenses | (14,286) | (16,374) |
| Other (expense)/income, net | (6,553) | 47 |
| Finance income, net | 643 | 5 |
| Profit/(loss) before income tax | 3,419 | (13,042) |
| Income tax | (263) | (268) |
| Net profit/(loss) | 3,156 | (13,310) |
| | | |
| Current assets | 94,935 | 61,677 |
| Non-current assets | 27,634 | 4,830 |
| Total assets | 122,569 | 66,507 |
| | | |
| Current liabilities | 120,892 | 64,619 |
| Non-current liabilities | 1,658 | 3,686 |
| Total liabilities | 122,550 | 68,305 |
| Net assets/(liabilities) | 19 | (1,798) |

# Notes to the consolidated financial statements continued
For the year ended 31 December 2010

## 16 Available-for-sale financial assets

| | 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| Seven Energy International Limited | **101,251** | – |
| Shares – listed | **243** | – |
| Units in a mutual fund | **–** | 539 |
| | **101,494** | 539 |

On 25 November 2010, the group paid US$101,251,000 for 15% (12.6% on a fully diluted basis) of the share capital of Seven Energy International Limited (Seven Energy), a leading Nigerian gas development and production company. The group also has the option to subscribe for 148,571 `of additional warrants in Seven Energy at a cost of a further US$52,000,000, subject to the satisfaction of certain performance conditions and milestones in relation to project execution. These warrants have been fair valued as derivative financial instruments under IAS 39 using a Black Scholes Model and are included in other financial assets (note 17) with a corresponding entry in trade and other payables representing deferred revenue relating to the performance conditions. This will be recognised as a gain once the warrants become exercisable.

## 17 Other financial assets

| | 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| **Other financial assets – non-current** | | |
| Fair value of derivative instruments (note 33) | **12** | 9,655 |
| Restricted cash | **266** | 2,880 |
| Other | **1,945** | – |
| | **2,223** | 12,535 |
| **Other financial assets – current** | | |
| Seven Energy warrants (note 16) | **11,969** | – |
| Fair value of derivative instruments (note 33) | **9,183** | 22,306 |
| Interest receivable | **731** | 845 |
| Restricted cash | **19,196** | 7,431 |
| Other | **1,271** | 375 |
| | **42,350** | 30,957 |

Restricted cash comprises deposits with financial institutions securing various guarantees and performance bonds associated with the group's trading activities (note 31). This cash will be released on the maturity of these guarantees and performance bonds.

## 18 Inventories

| | 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| Crude oil | **2,119** | 5,272 |
| Processed hydrocarbons | **90** | 31 |
| Stores and spares | **4,083** | 2,943 |
| Raw materials | **910** | 1,552 |
| | **7,202** | 9,798 |

Included in the consolidated income statement are costs of inventories expensed of US$28,840,000 (2009: US$37,306,000).

## 19 Work in progress and billings in excess of cost and estimated earnings

| | 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| Cost and estimated earnings | **7,812,897** | 3,918,368 |
| Less: billings | **(7,008,911)** | (3,584,670) |
| Work in progress | **803,986** | 333,698 |
| | | |
| Billings | **2,144,252** | 3,406,412 |
| Less: cost and estimated earnings | **(1,965,823)** | (2,945,268) |
| Billings in excess of cost and estimated earnings | **178,429** | 461,144 |
| | | |
| Total cost and estimated earnings | **9,778,720** | 6,863,636 |
| | | |
| Total billings | **9,153,163** | 6,991,082 |

## 20 Trade and other receivables

| | 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| Trade receivables | **785,383** | 614,837 |
| Retentions receivable | **26,297** | 8,772 |
| Advances | **179,101** | 139,550 |
| Prepayments and deposits | **34,059** | 35,143 |
| Other receivables | **31,919** | 80,368 |
| | **1,056,759** | 878,670 |

Trade receivables are non-interest bearing and are generally on 30 to 60 days' terms. Trade receivables are reported net of provision for impairment. The movements in the provision for impairment against trade receivables totalling US$785,383,000 (2009: US$614,837,000) are as follows:

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | Specific impairment US$'000 | General impairment US$'000 | Total US$'000 | Specific impairment US$'000 | General impairment US$'000 | Total US$'000 |
| At 1 January | **4,875** | **1,754** | **6,629** | 3,698 | 1,296 | 4,994 |
| Charge for the year | **2,189** | **1,796** | **3,985** | 6,309 | 1,320 | 7,629 |
| Amounts written off | **(2,197)** | **(67)** | **(2,264)** | (343) | (198) | (541) |
| Unused amounts reversed | **(1,738)** | **(893)** | **(2,631)** | (4,798) | (661) | (5,459) |
| Transfers | **(326)** | **326** | **–** | – | – | – |
| Exchange difference | **(13)** | **19** | **6** | 9 | (3) | 6 |
| **At 31 December** | **2,790** | **2,935** | **5,725** | 4,875 | 1,754 | 6,629 |

At 31 December, the analysis of trade receivables is as follows:

| | | Number of days past due | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Neither past due nor impaired US$'000 | < 30 days US$'000 | 31-60 days US$'000 | 61-90 days US$'000 | 91-120 days US$'000 | 121-360 days US$'000 | > 360 days US$'000 | Total US$'000 |
| Unimpaired | 599,661 | 125,821 | 34,562 | 10,897 | 7,324 | 834 | 164 | 779,263 |
| Impaired | – | 3,230 | 1,085 | 157 | 1,633 | 4,023 | 1,717 | 11,845 |
| | 599,661 | 129,051 | 35,647 | 11,054 | 8,957 | 4,857 | 1,881 | 791,108 |
| Less: impairment provision | – | (1,211) | (391) | (244) | (774) | (2,295) | (810) | (5,725) |
| **Net trade receivables 2010** | **599,661** | **127,840** | **35,256** | **10,810** | **8,183** | **2,562** | **1,071** | **785,383** |
| Unimpaired | 434,159 | 116,197 | 28,835 | 13,365 | 3,431 | 5,977 | 2,138 | 604,102 |
| Impaired | – | 3,177 | 2,148 | 386 | 2,510 | 6,220 | 2,923 | 17,364 |
| | 434,159 | 119,374 | 30,983 | 13,751 | 5,941 | 12,197 | 5,061 | 621,466 |
| Less: impairment provision | – | (585) | (243) | (332) | (305) | (3,421) | (1,743) | (6,629) |
| Net trade receivables 2009 | 434,159 | 118,789 | 30,740 | 13,419 | 5,636 | 8,776 | 3,318 | 614,837 |

The credit quality of trade receivables that are neither past due nor impaired is assessed by management with reference to externally prepared customer credit reports and the historic payment track records of the counterparties.

Advances represent payments made to certain of the group's sub-contractors for projects in progress, on which the related work had not been performed at the statement of financial position date. The increase in advances during 2010 relates to new contract awards in the Engineering & Construction business partly offset by the unwinding of advances on more mature contracts.

Included in other receivables are US$ nil (2009: US$46,697,000) recoverable from venture partners on the Don assets being their share of accrued expenses.

All trade and other receivables are expected to be settled in cash.

Certain trade and other receivables will be settled in cash using currencies other than the reporting currency of the group, and will be largely paid in Sterling and Kuwaiti Dinars.

# Notes to the consolidated financial statements continued
For the year ended 31 December 2010

## 21 Cash and short-term deposits

| | 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| Cash at bank and in hand | 244,018 | 203,105 |
| Short-term deposits | 818,987 | 1,214,258 |
| Total cash and bank balances | 1,063,005 | 1,417,363 |

Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the group, and earn interest at respective short-term deposit rates. The fair value of cash and bank balances is US$1,063,005,000 (2009: US$1,417,363,000).

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise the following:

| | 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| Cash at bank and in hand | 244,018 | 203,105 |
| Short-term deposits | 818,987 | 1,214,258 |
| Bank overdrafts (note 26) | (28,908) | (26,619) |
| | 1,034,097 | 1,390,744 |

## 22 Share capital
The share capital of the Company as at 31 December was as follows:

| | 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| **Authorised** | | |
| 750,000,000 ordinary shares of US$0.020 each (2009: 750,000,000 ordinary shares of US$0.025 each) | 15,000 | 18,750 |
| **Issued and fully paid** | | |
| **345,715,053 ordinary shares of US$0.020 each (2009: 345,532,388 ordinary shares of US$0.025 each) | 6,914 | 8,638 |

The movement in the number of issued and fully paid ordinary shares is as follows:

| | Number |
|---|---|
| **Ordinary shares:** | |
| Ordinary shares of US$0.025 each at 1 January 2009 | 345,434,858 |
| Issued during the year as further deferred consideration payable for the acquisition of a subsidiary | 97,530 |
| Ordinary shares of US$0.025 each at 1 January 2010 | 345,532,388 |
| Issued during the year as further deferred consideration payable for the acquisition of subsidiaries | 182,665 |
| **Ordinary shares of US$0.020 each at 31 December 2010** | **345,715,053** |

The share capital comprises only one class of ordinary shares. The ordinary shares carry a voting right and the right to a dividend.

**In order to effect the demerger of the PEDL sub group to EnQuest, the existing issued ordinary share capital of Petrofac Limited was subdivided and converted into new ordinary Petrofac shares with a nominal value of US$0.02 each and Petrofac B shares of US$0.005 each and subsequent to this share split the B shares were purchased and cancelled in exchange for an allotment and issue of EnQuest ordinary shares directly to holders of Petrofac B shares.

## 23 Treasury shares
For the purpose of making awards under its employee share schemes, the Company acquires its own shares which are held by the Petrofac Employee Benefit Trust. All these shares have been classified in the statement of financial position as treasury shares within equity.

The movements in total treasury shares are shown below:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Number | US$'000 | Number | US$'000 |
| At 1 January | 7,210,965 | 56,285 | 9,540,306 | 69,333 |
| Acquired during the year | 2,122,960 | 36,486 | – | – |
| Vested during the year | (2,576,586) | (27,454) | (2,329,341) | (13,048) |
| **At 31 December** | 6,757,339 | 65,317 | 7,210,965 | 56,285 |

During the year 5,467,852 Petrofac shares previously held in a Lehman Brothers custody account pending the finalisation of their legal administration were released to the Employee Benefit Trust.

Shares vested during the year include dividend shares of 120,504 (2009: 76,931) with a cost of US$1,284,000 (2009: US$431,000).

## 24 Share-based payment plans

### Performance Share Plan (PSP)

Under the Performance Share Plan of the Company, share awards are granted to executive directors and a restricted number of other senior executives of the group. The shares cliff vest at the end of three years subject to continued employment and the achievement of certain pre-defined non-market and market-based performance conditions. The non-market-based condition governing the vesting of 50% of the total award, is subject to achieving between 10% and 20% earning per share (EPS) growth targets over a three-year period. The fair values of the equity-settled award relating to the EPS part of the scheme are estimated based on the quoted closing market price per Company share at the date of grant with an assumed vesting rate per annum built into the calculation (subsequently trued up at year end based on the actual leaver rate during the period from award date to year end) over the three-year vesting period of the plan. The fair value and assumed vesting rates of the EPS part of the scheme are shown below:

| | Fair value per share | Assumed vesting rate |
|---|---|---|
| **2010 awards** | **1,103p** | **95.0%** |
| 2009 awards | 545p | 93.6% |
| 2008 awards | 522p | 89.1% |
| 2007 awards | 415p | 94.3% |

The remaining 50% market performance based part of these awards is dependent on the total shareholder return (TSR) of the group compared to an index composed of selected relevant companies. The fair value of the shares vesting under this portion of the award is determined by an independent valuer using a Monte Carlo simulation model taking into account the terms and conditions of the plan rules and using the following assumptions at the date of grant:

| | 2010 awards | 2009 awards | 2008 awards | 2007 awards |
|---|---|---|---|---|
| Expected share price volatility (based on median of comparator group's three-year volatilities) | **50.0%** | 49.0% | 32.0% | 29.0% |
| Share price correlation with comparator group | **39.0%** | 36.0% | 22.0% | 17.0% |
| Risk-free interest rate | **1.50%** | 2.10% | 3.79% | 5.20% |
| Expected life of share award | **3 years** | 3 years | 3 years | 3 years |
| Fair value of TSR portion | **743p** | 456p | 287p | 245p |

The following shows the movement in the number of shares held under the PSP scheme outstanding but not exercisable:

| | 2010 Number | 2009 Number |
|---|---|---|
| Outstanding at 1 January | **1,432,680** | 1,298,809 |
| Granted during the year | **390,278** | 576,780 |
| Vested during the year | **(407,316)** | (418,153) |
| Forfeited during the year | **(65,453)** | (24,756) |
| Outstanding at 31 December | **1,350,189** | 1,432,680 |

The number of outstanding shares exclude the 8% uplift adjustment made in respect of the EnQuest demerger (82,594 shares) and any rolled up declared dividends (64,264 shares) (2009: 60,830). The 8% uplift adjustment compensated the existing share plan holders for the loss in market value of Petrofac shares on flotation of EnQuest and employees have no legal right to receive dividend shares until the shares ultimately vest.

The number of awards still outstanding but not exercisable at 31 December 2010 is made up of 390,278 in respect of 2010 awards (2009: nil), 538,602 in respect of 2009 awards (2009: 576,780), 421,309 in respect of 2008 awards (2009: 431,843), and nil in respect of 2007 awards (2009: 424,057).

The charge recognised in the current year amounted to US$3,208,000 (2009: US$2,727,000).

### Deferred Bonus Share Plan (DBSP)

Executive directors and selected employees were originally eligible to participate in this scheme although the Remuneration Committee decided in 2007 that executive directors should no longer continue to participate. Participants are required, or in some cases invited, to receive a proportion of any bonus in ordinary shares of the Company ('Invested Awards'). Following such an award, the Company will generally grant the participant an additional award of a number of shares bearing a specified ratio to the number of his or her invested shares ('Matching Shares').

A change in the rules of the DBSP scheme was approved by shareholders at the Annual General Meeting of the Company on 11 May 2007 such that the 2007 share awards and for any awards made thereafter, the invested and Matching Shares would, unless the Remuneration Committee of the Board of Directors determined otherwise, vest 33.33% on the first anniversary of the date of grant, a further 33.33% on the second anniversary of the date of grant and the final 33.34% of the award on the third anniversary of the date of grant.

# Notes to the consolidated financial statements continued
For the year ended 31 December 2010

## 24 Share-based payment plans continued

**Deferred Bonus Share Plan (DBSP)** continued

At the year end the values of the bonuses settled by shares cannot be determined until all employees have confirmed the voluntary portion of their bonus they wish to be settled by shares rather than cash and until the Remuneration Committee has approved the mandatory portion of the employee bonuses to be settled in shares. Once the voluntary and mandatory portions of the bonus to be settled in shares are determined, the final bonus liability to be settled in shares is transferred to the reserve for share-based payments. The costs relating to the Matching Shares are recognised over the relevant vesting period and the fair values of the equity-settled Matching Shares granted to employees are based on the quoted closing market price at the date of grant adjusted for the trued up percentage vesting rate of the plan. The details of the fair values and assumed vesting rates of the DBSP scheme are below:

| | Fair value per share | Assumed vesting rate |
|---|---|---|
| **2010 awards** | **1,185p** | **94.4%** |
| 2009 awards | 545p | 93.9% |
| 2008 awards | 522p | 90.9% |
| 2007 awards | 415p | 89.6% |

The following shows the movement in the number of shares held under the DBSP scheme outstanding but not exercisable:

| | 2010 Number* | 2009 Number* |
|---|---|---|
| Outstanding at 1 January | **4,694,191** | 3,755,383 |
| Granted during the year | **1,397,094** | 2,773,020 |
| Vested during the year | **(1,792,895)** | (1,743,372) |
| Forfeited during the year | **(216,079)** | (90,840) |
| Outstanding at 31 December | **4,082,311** | 4,694,191 |

*Includes Invested and Matching Shares.

The number of outstanding shares exclude the 8% uplift adjustment made in respect of the EnQuest demerger (327,058 shares) and rolled up declared dividends of 184,599 (2009: 169,836).

The number of awards still outstanding but not exercisable at 31 December 2010 is made up of 1,313,894 in respect of 2010 awards (2009: nil), 1,948,340 in respect of 2009 awards (2009: 2,696,752), 820,077 in respect of 2008 awards (2009: 1,237,786), and nil in respect of 2007 awards (2009: 759,653).

The charge recognised in the 2010 income statement in relation to matching share awards amounted to US$9,195,000 (2009: US$8,064,000).

**Share Incentive Plan (SIP)**

All UK employees, including UK resident directors, are eligible to participate in the scheme. Employees may invest up to Sterling 1,500 per tax year of gross salary (or, if lower, 10% of salary) to purchase ordinary shares in the Company. There is no holding period for these shares.

**Restricted Share Plan (RSP)**

Under the Restricted Share Plan scheme, selected employees are granted shares in the Company over a discretionary vesting period which may or may not be, at the direction of the Remuneration Committee of the Board of Directors, subject to the satisfaction of performance conditions. At present there are no performance conditions applying to this scheme nor is there currently any intention to introduce them in the future. The fair values of the awards granted under the plan at various grant dates during the year are based on the quoted market price at the date of grant adjusted for an assumed vesting rate over the relevant vesting period. For details of the fair values and assumed vesting rate of the RSP scheme, see below:

| | Weighted average fair value per share | Assumed vesting rate |
|---|---|---|
| **2010 awards** | **990p** | **95.8%** |
| 2009 awards | 430p | 69.4% |
| 2008 awards | 478p | 88.0% |
| 2007 awards | 456p | 94.3% |

The following shows the movement in the number of shares held under the RSP scheme outstanding but not exercisable:

| | 2010 Number | 2009 Number |
|---|---|---|
| Outstanding at 1 January | **1,082,461** | 1,184,711 |
| Granted during the year | **203,384** | 86,432 |
| Vested during the year | **(176,360)** | (167,053) |
| Forfeited during the year | **(105,773)** | (21,629) |
| Outstanding at 31 December | **1,003,712** | 1,082,461 |

The number of outstanding shares exclude the 8% uplift adjustment made in respect of the EnQuest demerger (78,156 shares) and rolled up declared dividends of 48,474 (2009: 33,691).

The number of awards still outstanding but not exercisable at 31 December 2010 is made up of 195,580 in respect of 2010 awards (2009: nil), 36,658 in respect of 2009 awards (2009: 86,432), 665,542 in respect of 2008 awards (2009: 786,826), and 105,932 in respect of 2007 awards (2009: 209,203).

During the year the Company recognised a charge of US$2,381,000 (2009: US$2,472,000) in relation to the above.

The group has recognised a total charge of US$14,784,000 (2009: US$13,263,000) in the consolidated income statement during the year relating to the above employee share-based schemes (see note 4d) which has been transferred to the reserve for share-based payments along with US$12,750,000 of the bonus liability accrued for the year ended 31 December 2009 which has been settled in shares granted during the year (2009: US$10,942,000).

For further details on the above employee share-based payment schemes refer to pages 88 to 90 of the directors' remuneration report.

## 25 Other reserves

| | Net unrealised gains/(losses) on available-for-sale-financial assets US$'000 | Net unrealised (losses)/ gains on derivatives US$'000 | Foreign currency translation US$'000 | Reserve for share-based payments US$'000 | Total US$'000 |
|---|---|---|---|---|---|
| Balance at 1 January 2009 | 74 | 7,847 | (79,415) | 32,202 | (39,292) |
| Foreign currency translation | – | – | 15,087 | – | 15,087 |
| Net gains on maturity of cash flow hedges recycled in the year | – | (4,303) | – | – | (4,303) |
| Net changes in fair value of derivatives and financial assets designated as cash flow hedges | – | 29,229 | – | – | 29,229 |
| Share-based payments charge (note 24) | – | – | – | 13,263 | 13,263 |
| Transfer during the year (note 24) | – | – | – | 10,942 | 10,942 |
| Shares vested during the year (note 24) | – | – | – | (12,617) | (12,617) |
| Deferred tax on share based payments reserve | – | – | – | 13,085 | 13,085 |
| Balance at 1 January 2010 | 74 | 32,773 | (64,328) | 56,875 | 25,394 |
| Foreign currency translation | – | – | (908) | – | (908) |
| Foreign currency translation recycled to consolidated income statement in the year on EnQuest demerger (note 11) | – | – | 45,818 | – | 45,818 |
| Net gains on maturity of cash flow hedges recycled in the year | – | (16,612) | – | – | (16,612) |
| Net changes in fair value of derivatives and financial assets designated as cash flow hedges | – | (18,958) | – | – | (18,958) |
| Net changes in fair value of available-for-sale financial assets | 70 | – | – | – | 70 |
| Disposal of available-for-sale financial assets | (74) | – | – | – | (74) |
| Share-based payments charge (note 24) | – | – | – | 14,784 | 14,784 |
| Transfer during the year (note 24) | – | – | – | 12,750 | 12,750 |
| Shares vested during the year (note 24) | – | – | – | (26,170) | (26,170) |
| Deferred tax on share based payments reserve | – | – | – | (1,366) | (1,366) |
| **Balance at 31 December 2010** | **70** | **(2,797)** | **(19,418)** | **56,873** | **34,728** |

### Nature and purpose of other reserves

Net unrealised gains/(losses) on available-for-sale financial assets

This reserve records fair value changes on available-for-sale financial assets held by the group net of deferred tax effects. Realised gains and losses on the sale of available-for-sale financial assets are recognised as other income or expenses in the consolidated income statement.

Net unrealised gains/(losses) on derivatives

The portion of gains or losses on cash flow hedging instruments that are determined to be effective hedges are included within this reserve net of related deferred tax effects. When the hedged transaction occurs or is no longer forecast to occur, the gain or loss is transferred out of equity to the consolidated income statement. Realised net gains amounting to US$16,764,000 (2009: US$5,161,000) relating to foreign currency forward contracts and financial assets designated as cash flow hedges have been recognised in cost of sales, realised net losses of US$ nil (2009: US$1,470,000 loss) relating to interest rate derivatives have been classified as a net interest expense and a realised net loss of US$152,000 (2009: US$611,000 gain) was added to revenues in respect of oil derivatives.

# Notes to the consolidated financial statements continued
For the year ended 31 December 2010

## 25 Other reserves continued
### Net unrealised gain/(losses) on derivatives continued
The forward currency points element and ineffective portion of derivative financial instruments relating to forward currency contracts and gains on the maturity of un-designated derivatives amounting to a net loss of US$3,409,000 (2009: US$19,508,000 gain) have been recognised in the cost of sales.

### Foreign currency translation reserve
The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements in foreign subsidiaries. It is also used to record exchange differences arising on monetary items that form part of the group's net investment in subsidiaries.

### Reserve for share-based payments
The reserve for share-based payments is used to record the value of equity settled share-based payments awarded to employees and transfers out of this reserve are made upon vesting of the original share awards.

The transfer during the year reflects the transfer from accrued expenses within trade and other payables of the bonus liability relating to the year ended 2009 of US$12,750,000 (2008 bonus of US$10,942,000) which has been voluntarily elected or mandatorily obliged to be settled in shares during the year (note 24).

## 26 Interest-bearing loans and borrowings
The group had the following interest-bearing loans and borrowings outstanding:

| | | 31 December 2010 Actual interest rate % | 31 December 2009 Actual interest rate % | Effective interest rate % | Maturity | 2010 US$'000 | 2009 US$'000 |
|---|---|---|---|---|---|---|---|
| **Current** | | | | | | | |
| Revolving credit facility | (i) | n/a | US LIBOR + 1.50% | US LIBOR + 1.50% | | – | 20,000 |
| Bank overdrafts | (ii) | UK LIBOR + 1.50%, US LIBOR + 1.50% | UK LIBOR + 1.50%, US LIBOR + 1.50% | UK LIBOR + 1.50%, US LIBOR + 1.50% | on demand | **28,908** | 26,619 |
| Other loans: | | | | | | | |
| Current portion of term loan | (iii) | US/UK LIBOR + 0.875% | US/UK LIBOR + 0.875% | 3.26% to 4.14% (2009: 3.14% to 3.71%) | | **14,241** | 10,489 |
| Current portion of term loan | (iv) | US/UK LIBOR + 0.875% | US/UK LIBOR + 0.875% | 2.01% to 3.91% (2009: 2.65% to 3.44%) | | **4,286** | 963 |
| | | | | | | **47,435** | 58,071 |
| **Non-current** | | | | | | | |
| Term loan | (iv) | US/UK LIBOR + 0.875% | US/UK LIBOR + 0.875% | 2.01% to 3.91% (2009: 2.65% to 3.44%) | 2010-2013 | **13,809** | 18,291 |
| Term loan | (iii) | US/UK LIBOR + 0.875% | US/UK LIBOR + 0.875% | 3.26% to 4.14% (2009: 3.14% to 3.71%) | 2010-2013 | **30,576** | 46,694 |
| | | | | | | **44,385** | 64,985 |
| Less: | | | | | | | |
| Debt acquisition costs net of accumulated amortisation and effective rate adjustments | | | | | | **(4,159)** | (5,790) |
| | | | | | | **40,226** | 59,195 |

Details of the group's interest-bearing loans and borrowings are as follows:

### (i) Revolving credit facility
This facility has been repaid on 31 December 2010.

### (ii) Bank overdrafts
Bank overdrafts are drawn down in US Dollars and Sterling denominations to meet the group's working capital requirements. These are repayable on demand.

(iii) Term loan

This term loan at 31 December 2010 comprised drawings of US$23,057,000 (2009: US$28,877,000) denominated in US$ and US$21,760,000 (2009: US$28,306,000) denominated in Sterling. Both elements of the loan are repayable over a period of three years ending 30 September 2013.

(iv) Term loan

This term loan is to be repaid over a period of three years ending 30 September 2013. The drawings at 31 December 2010 comprised US$13,203,000 (2009: US$13,900,000) denominated in US$ and US$4,892,000 (2009: US$5,354,000) denominated in Sterling.

The group's credit facilities and debt agreements contain covenants relating to interest and net borrowings cover. None of the Company's subsidiaries is subject to any material restrictions on their ability to transfer funds in the form of cash dividends, loans or advances to the Company.

## 27 Provisions

| | Other long-term employment benefits provision US$'000 | Provision for decommissioning US$'000 | Provision for insurance claims US$'000 | Total US$'000 |
|---|---|---|---|---|
| At 1 January 2010 | 34,130 | 57,973 | – | 92,103 |
| Additions during the year | 12,770 | 984 | 1,561 | 15,315 |
| Don assets demerger (note 11) | – | (55,967) | – | (55,967) |
| Unused amounts reversed/paid in the year | (6,696) | (90) | – | (6,786) |
| Unwinding of discount | – | 776 | – | 776 |
| **At 31 December 2010** | **40,204** | **3,676** | **1,561** | **45,441** |

### Other long-term employment benefits provision

Labour laws in certain countries in which the group operates require employers to provide for other long-term employment benefits. These benefits are payable to employees on being transferred to another jurisdiction or on cessation of employment.

### Provision for decommissioning

The decommissioning provision primarily relates to the group's obligation for the removal of facilities and restoration of the site at the PM304 field in Malaysia and at Chergui in Tunisia. The liability is discounted at the rate of 3.80% on PM304 (2009: 3.80%), 5.25% on Chergui (2009: 5.25%) and nil% (2009: 4.50%) on demerged Don assets. The unwinding of the discount is classified as finance cost (note 5). The group estimates that the cash outflows against these provisions will arise in 2014 on PM304 and in 2018 on Chergui.

### Provision for insurance claims

The provision for insurance claims relates to the amount set aside to cover potential future insurance claims against the group which will be settled by the captive insurance company Jermyn Insurance Company Limited.

## 28 Other financial liabilities

| | 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| **Other financial liabilities – non-current** | | |
| Deferred consideration payable | 11,279 | 27,438 |
| Fair value of derivative instruments (note 33) | 174 | – |
| Other | – | 47 |
| | 11,453 | 27,485 |
| **Other financial liabilities – current** | | |
| Deferred consideration payable | 24,595 | 1,622 |
| Interest payable | 9 | 22 |
| Fair value of derivative instruments (note 33) | 12,197 | 1,813 |
| Other | 253 | 177 |
| | 37,054 | 3,634 |

Included in deferred consideration payable above is an amount payable of US$3,918,000 (2009: US$4,890,000) relating to the group's purchase of a floating platform and US$6,556,000 (2009: US$ nil) relating to the group's investment in an associate (note 14).

## 29 Trade and other payables

| | 2010 US$'000 | Restated 2009 US$'000 |
|---|---|---|
| Trade payables | 278,383 | 292,414 |
| Advances received from customers | 412,044 | 379,684 |
| Accrued expenses | 251,512 | 260,290 |
| Other taxes payable | 12,755 | 14,699 |
| Other payables | 66,742 | 29,930 |
| | 1,021,436 | 977,017 |

# Notes to the consolidated financial statements continued
For the year ended 31 December 2010

## 29 Trade and other payables continued
Advances from customers represent payments received for contracts on which the related work had not been performed at the statement of financial position date.

Included in other payables are retentions held against subcontractors of US$6,170,000 (2009: US$938,000). Also included in other payables above is U$11,969,000 deferred revenue relating to the provision of services required to earn the right to subscribe for the additional Seven Energy warrants (note 16).

Certain trade and other payables will be settled in currencies other than the reporting currency of the group, mainly in Sterling, Euros and Kuwaiti Dinars.

## 30 Accrued contract expenses

| | 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| Accrued contract expenses | **1,272,942** | 832,503 |
| Reserve for contract losses | **2,523** | 4,153 |
| | **1,275,465** | 836,656 |

The reserve for contract losses is to cover costs in excess of revenues on certain contracts.

## 31 Commitments and contingencies
### Commitments
In the normal course of business the group will obtain surety bonds, letters of credit and guarantees, which are contractually required to secure performance, advance payment or in lieu of retentions being withheld. Some of these facilities are secured by issue of corporate guarantees by the Company in favour of the issuing banks.

At 31 December 2010, the group had letters of credit of US$2,984,000 (2009: US$91,042,000) and outstanding letters of guarantee, including performance, advance payments and bid bonds, of US$2,951,553,000 (2009: US$2,124,134,000) against which the group had pledged or restricted cash balances of, in aggregate, US$19,462,000 (2009: US$2,675,000).

At 31 December 2010, the group had outstanding forward exchange contracts amounting to US$188,561,000 (2009: US$351,803,000). These commitments consist of future obligations to either acquire or sell designated amounts of foreign currency at agreed rates and value dates (note 33).

### Leases
The group has financial commitments in respect of non-cancellable operating leases for office space and equipment. These non-cancellable leases have remaining non-cancellable lease terms of between one and 17 years and, for certain property leases, are subject to renegotiation at various intervals as specified in the lease agreements. The future minimum rental commitments under these non-cancellable leases are as follows:

| | 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| Within one year | **18,031** | 35,796 |
| After one year but not more than five years | **41,239** | 57,127 |
| More than five years | **76,914** | 73,030 |
| | **136,184** | 165,953 |

Included in the above are commitments relating to the lease of an office building extension in Aberdeen, United Kingdom of US$49,232,000 (2009: US$39,735,000), lease of mobile operating production unit and floating storage and offloading unit US$15,619,000 (2009: US$35,665,000) in Block PM304, offshore Malaysia and mobile drilling rig for the Don Southwest project of US$ nil (2009: US$10,089,000).

Minimum lease payments recognised as an operating lease expense during the year amounted to US$35,625,000 (2009: US$33,063,000).

### Capital commitments
At 31 December 2010, the group had capital commitments of US$90,416,000 (2009: US$18,786,000) excluding the above lease commitments.

Included in the above are commitments to refurbish the floating production, storage and offloading unit for East Fortune of US$52,800,000 (2009: US$ nil), further appraisal and development of wells as part of the Cendor project in Malaysia amounting to US$7,269,000 (2009: US$14,572,000), commitments in respect of the Ticleni Production Enhancement contract in Romania US$21,046,000 (2009: US$ nil) and commitments in respect of IT projects of US$9,281,000 (2009: US$3,300,000).

## 32 Related party transactions

The consolidated financial statements include the financial statements of Petrofac Limited and the subsidiaries listed in note 35. Petrofac Limited is the ultimate parent entity of the group.

The following table provides the total amount of transactions which have been entered into with related parties:

| | | Sales to related parties US$'000 | Purchases from related parties US$'000 | Amounts owed by related parties US$'000 | Amounts owed to related parties US$'000 |
|---|---|---|---|---|---|
| Joint ventures | **2010** | **101,370** | **88,796** | **327** | **11,098** |
| | 2009 | 27,337 | 15,434 | 17,773 | 56,925 |
| Key management personnel interests | **2010** | **–** | **1,688** | **–** | **612** |
| | 2009 | – | 1,405 | 487 | 401 |

All sales to and purchases from joint ventures are made at normal market prices and the pricing policies and terms of these transactions are approved by the group's management.

All related party balances will be settled in cash.

Purchases in respect of key management personnel interests of US$1,601,000 (2009: US$1,336,000) reflect the market rate based costs of chartering the services of an aeroplane used for the transport of senior management and directors of the group on company business, which is owned by an offshore trust of which the Group Chief Executive of the Company is a beneficiary.

Also included in purchases in respect of key management personnel interests is US$87,000 (2009: US$69,000) relating to client entertainment provided by a business owned by a member of the group's key management.

Amounts owed by key management personnel comprises of a temporary loan of US$ nil (2009: US$487,000) provided in respect of income tax payable on vesting of Restricted Share Plan shares pending disposal of shares to meet this liability once the close period for trading Petrofac shares ends.

### Compensation of key management personnel

The following details remuneration of key management personnel of the group comprising of executive and non-executive directors of the Company and other senior personnel. Further information relating to the individual directors is provided in the directors' remuneration report on pages 84 to 95.

| | 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| Short-term employee benefits | **11,870** | 11,209 |
| Other long-term employment benefits | **142** | 129 |
| Share-based payments | **3,827** | 3,368 |
| Fees paid to non-executive directors | **581** | 506 |
| | **16,420** | 15,212 |

## 33 Risk management and financial instruments

### Risk management objectives and policies

The group's principal financial assets and liabilities, other than derivatives, comprise available-for-sale financial assets, trade and other receivables, amounts due from/to related parties, cash and short-term deposits, work-in-progress, interest-bearing loans and borrowings, trade and other payables and deferred consideration.

The group's activities expose it to various financial risks particularly associated with interest rate risk on its variable rate cash and short-term deposits, loans and borrowings and foreign currency risk on both conducting business in currencies other than reporting currency as well as translation of the assets and liabilities of foreign operations to the reporting currency. These risks are managed from time to time by using a combination of various derivative instruments, principally interest rate swaps, caps and forward currency contracts in line with the group's hedging policies. The group has a policy not to enter into speculative trading of financial derivatives.

The Board of Directors of the Company has established an Audit Committee and Risk Committee to help identify, evaluate and manage the significant financial risks faced by the group and their activities are discussed in detail on pages 80 to 83.

# Notes to the consolidated financial statements continued
For the year ended 31 December 2010

## 33 Risk management and financial instruments continued
The other main risks besides interest rate and foreign currency risk arising from the group's financial instruments are credit risk, liquidity risk and commodity price risk and the policies relating to these risks are discussed in detail below:

### Interest rate risk
Interest rate risk arises from the possibility that changes in interest rates will affect the value of the group's interest-bearing financial liabilities and assets.

The group's exposure to market risk arising from changes in interest rates relates primarily to the group's long-term variable rate debt obligations and its cash and bank balances. The group's policy is to manage its interest cost using a mix of fixed and variable rate debt. The group's cash and bank balances are at floating rates of interest.

### Interest rate sensitivity analysis
The impact on the group's pre-tax profit and equity due to a reasonably possible change in interest rates on loans and borrowings at the reporting date is demonstrated in the table below. The analysis assumes that all other variables remain constant.

| | Pre-tax profit | | Equity | |
|---|---|---|---|---|
| | 100 basis point increase US$'000 | 100 basis point decrease US$'000 | 100 basis point increase US$'000 | 100 basis point decrease US$'000 |
| **31 December 2010** | **(710)** | **710** | **–** | **–** |
| 31 December 2009 | (1,096) | 1,096 | – | – |

The following table reflects the maturity profile of these financial liabilities and assets:

### Year ended 31 December 2010

| | Within 1 year US$'000 | 1-2 years US$'000 | 2-3 years US$'000 | 3-4 years US$'000 | 4-5 years US$'000 | More than 5 years US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | | |
| **Floating rates** | | | | | | | |
| Bank overdrafts (note 26) | 28,908 | – | – | – | – | – | 28,908 |
| Term loans (note 26) | 18,527 | 23,823 | 20,562 | – | – | – | 62,912 |
| | **47,435** | **23,823** | **20,562** | **–** | **–** | **–** | **91,820** |
| **Financial assets** | | | | | | | |
| **Floating rates** | | | | | | | |
| Cash and short-term deposits (note 21) | 1,063,005 | – | – | – | – | – | 1,063,005 |
| Restricted cash balances (note 17) | 19,196 | 266 | – | – | – | – | 19,462 |
| | **1,082,201** | **266** | **–** | **–** | **–** | **–** | **1,082,467** |

### Year ended 31 December 2009

| | Within 1 year US$'000 | 1-2 years US$'000 | 2-3 years US$'000 | 3-4 years US$'000 | 4-5 years US$'000 | More than 5 years US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | | |
| **Floating rates** | | | | | | | |
| Revolving credit facility (note 26) | 20,000 | – | – | – | – | – | 20,000 |
| Bank overdrafts (note 26) | 26,619 | – | – | – | – | – | 26,619 |
| Term loans (note 26) | 11,452 | 18,901 | 24,221 | 21,863 | – | – | 76,437 |
| | 58,071 | 18,901 | 24,221 | 21,863 | – | – | 123,056 |
| **Financial assets** | | | | | | | |
| **Floating rates** | | | | | | | |
| Cash and short-term deposits (note 21) | 1,417,363 | – | – | – | – | – | 1,417,363 |
| Restricted cash balances (note 17) | 7,431 | 226 | – | – | – | 2,654 | 10,311 |
| | 1,424,794 | 226 | – | – | – | 2,654 | 1,427,674 |

Financial liabilities in the above table are disclosed gross of debt acquisition costs and effective rate adjustments of US$4,159,000 (2009: US$5,790,000).

Interest on financial instruments classified as floating rate is re-priced at intervals of less than one year. The other financial instruments of the group that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

**Derivative instruments designated as cash flow hedges**
At 31 December 2010, the group held no derivative instruments, designated as cash flow hedges in relation to floating rate interest-bearing loans and borrowings.

**Foreign currency risk**
The group is exposed to foreign currency risk on sales, purchases, and translation of assets and liabilities that are in a currency other than the functional currency of its operating units. The group is also exposed to the translation of the functional currencies of its units to the US Dollar reporting currency of the group. The following table summarises the percentage of foreign currency denominated revenues, costs, financial assets and financial liabilities, expressed in US Dollar terms, of the group totals.

| | 2010 % of foreign currency denominated items | 2009 % of foreign currency denominated items |
|---|---|---|
| Revenues | 41.6% | 39.5% |
| Costs | 62.2% | 50.1% |
| Current financial assets | 34.8% | 35.3% |
| Non-current financial assets | 0.0% | 1.0% |
| Current financial liabilities | 51.2% | 42.3% |
| Non-current financial liabilities | 59.4% | 34.6% |

The group uses forward currency contracts to manage the currency exposure on transactions significant to its operations. It is the group's policy not to enter into forward contracts until a highly probable forecast transaction is in place and to negotiate the terms of the derivative instruments used for hedging to match the terms of the hedged item to maximise hedge effectiveness.

**Foreign currency sensitivity analysis**
The income statements of foreign operations are translated into the reporting currency using a weighted average exchange rate of conversion. Foreign currency monetary items are translated using the closing rate at the reporting date. Revenues and costs in currencies other than the functional currency of an operating unit are recorded at the prevailing rate at the date of the transaction. The following significant exchange rates applied during the year in relation to US Dollars:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Average rate | Closing rate | Average rate | Closing rate |
| Sterling | 1.54 | 1.56 | 1.56 | 1.62 |
| Kuwaiti Dinar | 3.49 | 3.55 | 3.47 | 3.48 |
| Euro | 1.32 | 1.34 | 1.40 | 1.44 |

The following table summarises the impact on the group's pre-tax profit and equity (due to change in the fair value of monetary assets, liabilities and derivative instruments) of a reasonably possible change in US Dollar exchange rates with respect to different currencies:

| | Pre-tax profit | | Equity | |
|---|---|---|---|---|
| | +10% US Dollar rate increase US$'000 | -5% US Dollar rate decrease US$'000 | +10% US Dollar rate increase US$'000 | -5% US Dollar rate decrease US$'000 |
| **31 December 2010** | **(3,750)** | **1,875** | **6,272** | **(3,136)** |
| 31 December 2009 | (10,238) | 5,141 | 7,980 | (3,990) |

**Derivative instruments designated as cash flow hedges**
At 31 December 2010, the group had foreign exchange forward contracts as follows:

| | Contract value | | Fair value (undesignated) | | Fair value (designated) | | Net unrealised gain/(loss) | |
|---|---|---|---|---|---|---|---|---|
| | 2010 US$'000 | 2009 US$'000 | 2010 US$'000 | 2009 US$'000 | 2010 US$'000 | 2009 US$'000 | 2010 US$'000 | 2009 US$'000 |
| Euro currency purchases | 171,072 | 101,909 | (1,794) | 5,017 | (2,046) | 24,479 | (1,827) | 28,430 |
| Sterling currency purchases | 14,405 | 38,700 | (135) | – | 1,583 | 4,703 | 1,695 | 4,966 |
| Yen currency purchases (sales) | 1,721 | (160) | 128 | – | 76 | (942) | 117 | (862) |
| Swiss Francs purchases | 1,363 | – | – | – | 175 | – | 14 | – |
| Kuwaiti Dinars sales | – | (211,034) | – | 53 | – | (1,349) | – | 266 |
| | | | | | | | (1) | 32,800 |

The above foreign exchange contracts mature and will affect income between January 2011 and July 2013 (2009: between January 2010 and July 2013).

# Notes to the consolidated financial statements continued
For the year ended 31 December 2010

## 33 Risk management and financial instruments continued

At 31 December 2010, the group had cash and short-term deposits designated as cash flow hedges with a fair value loss of US$1,633,000 (2009: US$1,786,000 gain) as follows:

| | Fair value | | Net unrealised gain/(loss) | |
|---|---|---|---|---|
| | 2010 US$'000 | 2009 US$'000 | 2010 US$'000 | 2009 US$'000 |
| Euro currency cash and short-term deposits | 15,730 | 91,660 | (1,798) | 1,163 |
| Sterling currency cash and short-term deposits | 2,086 | 5,264 | (120) | 772 |
| Yen currency cash and short-term deposits | 4,510 | – | 278 | – |
| Swiss Francs cash and short-term deposits | 660 | – | 7 | – |
| Kuwaiti Dinars cash and short-term deposits | – | 19,146 | – | (149) |
| | | | (1,633) | 1,786 |

During 2010, changes in fair value losses of US$19,456,000 (2009: losses US$28,043,000) relating to these derivative instruments and financial assets were taken to equity and US$16,764,000 of gains (2009: US$5,161,000 gains) were recycled from equity into cost of sales in the income statement. The forward points and ineffective portions of the above foreign exchange forward contracts and loss on maturity of un-designated derivatives of US$3,409,000 (2009: US$19,508,000 gains) were recognised in the income statement (note 4b).

### Commodity price risk – oil prices

The group is exposed to the impact of changes in oil & gas prices on its revenues and profits generated from sales of crude oil & gas. The group's policy is to manage its exposure to the impact of changes in oil and gas prices using derivative instruments, primarily swaps and collars. Hedging is only undertaken once sufficiently reliable and regular long term forecast production data is available.

During the year the group entered into various crude oil swaps hedging oil production of 176,400 bbl (2009: 96,000 bbl) with maturities ranging from 1 April 2010 to 31 December 2011. In addition, fuel oil swaps were also entered into for hedging gas production of 43,750MT (2009: 27,000MT) with maturities from 1 April 2010 to 31 December 2011.

The fair value of oil derivatives at 31 December 2010 was US$1,163,000 liability (2009: US$1,813,000 liability) with a loss recognised in equity of US$1,163,000 (2009: US$1,813,000 loss). During the year, a loss of US$152,000 (2009: US$611,000 gain) was recognised in the consolidated income statement on the occurrence of the hedged transactions.

The following table summarises the impact on the group's pre-tax profit and equity (due to a change in the fair value of oil derivative instruments and the underlifting asset/overlifting liability) of a reasonably possible change in the oil price:

| | Pre-tax profit | | Equity | |
|---|---|---|---|---|
| | +10 US$/bbl increase US$'000 | -10 US$/bbl decrease US$'000 | +10 US$/bbl increase US$'000 | -10 US$/bbl decrease US$'000 |
| **31 December 2010** | (194) | 194 | (802) | 802 |
| 31 December 2009 | 82 | (82) | (861) | 861 |

### Credit risk

The group trades only with recognised, creditworthy third parties. Business Unit Risk Review Committees (BURRC) have been set up by the Board of Directors to evaluate the creditworthiness of each individual third party at the time of entering into new contracts. Limits have been placed on the approval authority of the BURRC above which the approval of the Board of Directors of the Company is required. Receivable balances are monitored on an ongoing basis with appropriate follow-up action taken where necessary. At 31 December 2010, the group's five largest customers accounted for 72.0% of outstanding trade receivables and work in progress (2009: 57.5%).

With respect to credit risk arising from the other financial assets of the group, which comprise cash and cash equivalents, available-for-sale financial assets and certain derivative instruments, the group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

## Liquidity risk

The group's objective is to maintain a balance between continuity of funding and flexibility through the use of overdrafts, revolving credit facilities, project finance and term loans to reduce its exposure to liquidity risk. The maturity profiles of the group's financial liabilities at 31 December 2010 are as follows:

### Year ended 31 December 2010

| | 6 months or less US$'000 | 6-12 months US$'000 | 1-2 years US$'000 | 2-5 years US$'000 | More than 5 years US$'000 | Contractual undiscounted cash flows US$'000 | Carrying amount US$'000 |
|---|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | | |
| Interest-bearing loans and borrowings | 37,776 | 9,659 | 23,823 | 20,562 | – | 91,820 | 87,661 |
| Trade and other payables (excluding advances from customers) | 551,233 | 58,159 | – | – | – | 609,392 | 609,392 |
| Due to related parties | 11,710 | – | – | – | – | 11,710 | 11,710 |
| Deferred consideration | 24,595 | – | 11,279 | – | – | 35,874 | 35,874 |
| Derivative instruments | 11,034 | 1,163 | 174 | – | – | 12,371 | 12,371 |
| Interest payable | 9 | – | – | – | – | 9 | 9 |
| Interest payments | 421 | 388 | 632 | 206 | – | 1,647 | – |
| | **636,778** | **69,369** | **35,908** | **20,768** | **–** | **762,823** | **757,017** |

### Year ended 31 December 2009

| | 6 months or less US$'000 | 6-12 months US$'000 | 1-2 years US$'000 | 2-5 years US$'000 | More than 5 years US$'000 | Contractual undiscounted cash flows US$'000 | Carrying amount US$'000 |
|---|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | | |
| Interest-bearing loans and borrowings | 31,863 | 26,208 | 18,901 | 46,084 | – | 123,056 | 117,266 |
| Trade and other payables (excluding advances from customers) | 585,490 | 11,843 | – | – | – | 597,333 | 597,333 |
| Due to related parties | 44,496 | 12,830 | – | – | – | 57,326 | 57,326 |
| Deferred consideration | 1,622 | – | 20,519 | 11,356 | – | 33,497 | 29,060 |
| Derivative instruments | 907 | 906 | – | – | – | 1,813 | 1,813 |
| Interest payable | 22 | – | – | – | – | 22 | 22 |
| Interest payments | 816 | 1,148 | 2,094 | 2,291 | – | 6,349 | – |
| | 665,216 | 52,935 | 41,514 | 59,731 | – | 819,396 | 802,820 |

The group uses various funded facilities provided by banks and its own financial assets to fund the above mentioned financial liabilities.

# Notes to the consolidated financial statements continued
For the year ended 31 December 2010

## 33 Risk management and financial instruments continued

### Capital management

The group's policy is to maintain a healthy capital base to sustain future growth and maximise shareholder value.

The group seeks to optimise shareholder returns by maintaining a balance between debt and capital and monitors the efficiency of its capital structure on a regular basis. The gearing ratio and return on shareholders' equity is as follows:

| | 2010 US$'000 | Restated 2009 US$'000 |
|---|---|---|
| Cash and short-term deposits | **1,063,005** | 1,417,363 |
| Interest-bearing loans and borrowings (A) | **(87,661)** | (117,266) |
| Net cash (B) | **975,344** | 1,300,097 |
| Equity attributable to Petrofac Limited shareholders (C) | **776,462** | 894,710 |
| Profit for the year attributable to Petrofac Limited shareholders (D) | **557,817** | 353,603 |
| Gross gearing ratio (A/C) | **11.3%** | 13.1% |
| Net gearing ratio (B/C) | **Net cash position** | Net cash position |
| Shareholders' return on investment (D/C) | **71.8%** | 39.5% |

### Fair values of financial assets and liabilities

The fair value of the group's financial instruments and their carrying amounts included within the group's statement of financial position are set out below:

| | Carrying amount | | Fair value | |
|---|---|---|---|---|
| | 2010 US$'000 | 2009 US$'000 | 2010 US$'000 | 2009 US$'000 |
| **Financial assets** | | | | |
| Cash and short-term deposits | **1,063,005** | 1,417,363 | **1,063,005** | 1,417,363 |
| Restricted cash | **19,462** | 10,311 | **19,462** | 10,311 |
| Available-for-sale financial assets | **101,494** | 539 | **101,494** | 539 |
| Seven Energy warrants | **11,969** | – | **11,969** | – |
| Forward currency contracts-designated as cash flow hedge | **7,961** | 26,891 | **7,961** | 26,891 |
| Forward currency contracts-undesignated | **1,234** | 5,070 | **1,234** | 5,070 |
| **Financial liabilities** | | | | |
| Interest-bearing loans and borrowings | **87,661** | 117,266 | **87,661** | 117,266 |
| Deferred consideration | **35,874** | 30,178 | **35,874** | 30,178 |
| Oil derivative | **1,163** | 1,813 | **1,163** | 1,813 |
| Forward currency contracts-designated as cash flow hedge | **8,173** | – | **8,173** | – |
| Forward currency contracts-undesignated | **3,035** | – | **3,035** | – |

### Fair values of financial assets and liabilities

Market values have been used to determine the fair values of available-for-sale financial assets, forward currency contracts and oil derivatives. Seven Energy warrant's fair value has been calculated using a Black Scholes option valuation model (note 16). The fair values of long-term interest-bearing loans and borrowings are equivalent to their amortised costs determined as the present value of discounted future cash flows using the effective interest rate. The Company considers that the carrying amounts of trade and other receivables, work-in-progress, trade and other payables, other current and non-current financial assets and liabilities approximate their fair values and are therefore excluded from the above table.

### Fair value hierarchy

The following financial instruments are measured at fair value using the hierarchy below for determination and disclosure of their respective fair values:

Tier 1: Unadjusted quoted prices in active markets for identical financial assets or liabilities
Tier 2: Other valuation techniques where the inputs are based on all observation data (directly or indirectly)
Tier 3: Other valuation techniques where the inputs are based on unobservable market data

**Assets measured at fair value**
**Year ended 31 December 2010**

| | Tier 1 US$'000 | Tier 2 US$'000 | 2010 US$'000 |
|---|---|---|---|
| **Financial assets** | | | |
| Available-for-sale financial assets | 243 | 101,251 | **101,494** |
| Seven Energy warrants | – | 11,969 | **11,969** |
| Forward currency contracts-designated as cash flow hedge | – | 7,961 | **7,961** |
| Forward currency contracts-undesignated | – | 1,234 | **1,234** |
| **Financial liabilities** | | | |
| Interest-bearing loans and borrowings | – | 87,661 | **87,661** |
| Forward currency contracts-designated as cash flow hedge | – | 8,173 | **8,173** |
| Forward currency contracts-undesignated | – | 3,035 | **3,035** |
| Oil derivative | – | 1,163 | **1,163** |

**Year ended 31 December 2009**

| | Tier 1 US$'000 | Tier 2 US$'000 | 2009 US$'000 |
|---|---|---|---|
| **Financial assets** | | | |
| Available-for-sale financial assets | – | 539 | 539 |
| Forward currency contracts-designated as cash flow hedge | – | 26,891 | 26,891 |
| Forward currency contracts-undesignated | – | 5,070 | 5,070 |
| **Financial liabilities** | | | |
| Interest-bearing loans and borrowings | – | 117,266 | 117,266 |
| Oil derivative | – | 1,813 | 1,813 |

## 34 Events after the reporting date

On 31 January 2011, Energy Developments signed an RSC to lead the development of the Berantai field, offshore Peninsular Malaysia for Petronas, the Malaysian national oil company. Petrofac has a 50% interest in the RSC alongside our two local partners who each hold a 25% interest and the joint venture will develop the field and subsequently operate it for seven years after first gas production. As part of the fast track development of the field, the group has committed as at 31 December 2010 to acquire an FPSO vessel which will be jointly owned by Berantai joint venture partners (see note 31 for details).

# Notes to the consolidated financial statements continued
For the year ended 31 December 2010

## 35 Subsidiaries and joint ventures

At 31 December 2010, the group had investments in the following subsidiaries and incorporated joint ventures:

| Name of company | Country of incorporation | Proportion of nominal value of issued shares controlled by the group 2010 | 2009 |
|---|---|---|---|
| **Trading subsidiaries** | | | |
| Petrofac Inc. | USA | *100 | *100 |
| Petrofac International Ltd | Jersey | *100 | *100 |
| Petrofac Energy Development UK Limited | England | *100 | – |
| Petrofac Energy Developments Limited | England | – | *100 |
| Petrofac Energy Developments International Limited | Jersey | *100 | *100 |
| Petrofac UK Holdings Limited | England | *100 | *100 |
| Petrofac Facilities Management International Limited | Jersey | *100 | *100 |
| Petrofac Services Limited | England | *100 | *100 |
| Petrofac Services Inc. | USA | *100 | *100 |
| Petrofac Training International Limited | Jersey | *100 | *100 |
| Petroleum Facilities E & C Limited | Jersey | *100 | *100 |
| Petrofac ESOP Trustees Limited | Jersey | *100 | *100 |
| Jermyn Insurance Company Limited | Guernsey | *100 | – |
| Atlantic Resourcing Limited | Scotland | 100 | 100 |
| Petrofac Algeria EURL | Algeria | 100 | 100 |
| Petrofac Engineering India Private Limited | India | 100 | 100 |
| Petrofac Engineering Services India Private Limited | India | 100 | 100 |
| Petrofac Engineering Limited | England | 100 | 100 |
| Petrofac Offshore Management Limited | Jersey | 100 | 100 |
| Petrofac FZE | United Arab Emirates | 100 | 100 |
| Petrofac Facilities Management Group Limited | Scotland | 100 | 100 |
| Petrofac Facilities Management Limited | Scotland | 100 | 100 |
| Petrofac International Nigeria Ltd | Nigeria | 100 | 100 |
| Petrofac Pars (PJSC) | Iran | 100 | 100 |
| Petrofac Iran (PJSC) | Iran | 100 | 100 |
| Plant Asset Management Limited | Scotland | 100 | 100 |
| Petrofac Nuigini Limited | Papua New Guinea | 100 | 100 |
| PFMAP Sendirian Berhad | Malaysia | 100 | 100 |
| Petrofac Caspian Limited | Azerbaijan | 100 | 100 |
| Petrofac (Malaysia-PM304) Limited | England | 100 | 100 |
| Petrofac Training Group Limited | Scotland | 100 | 100 |
| Petrofac Training Holdings Limited | Scotland | 100 | 100 |
| Petrofac Training Limited | Scotland | 100 | 100 |
| Petrofac Training Inc. | USA | 100 | 100 |
| Petrofac Training (Trinidad) Limited | Trinidad | 100 | 100 |
| Monsoon Shipmanagement Limited | Jersey | 100 | 100 |
| Petrofac E&C International Limited | United Arab Emirates | 100 | 100 |
| Petrofac Saudi Arabia Limited | Saudi Arabia | 100 | 100 |
| Petrofac Energy Developments (Ohanet) Jersey Limited | Jersey | 100 | 100 |
| Petrofac Energy Developments (Ohanet) LLC | USA | 100 | 100 |
| PEDL Limited | England | – | 100 |
| Petrofac (Cyprus) Limited | Cyprus | 100 | 100 |
| PKT Technical Services Ltd | Russia | **50 | **50 |
| PKT Training Services Ltd | Russia | 100 | 100 |
| Pt PCI Indonesia | Indonesia | 80 | 80 |
| Petrofac Training Institute Pte Limited | Singapore | 100 | 100 |
| Petrofac Training Sdn Bhd | Malaysia | 100 | 100 |

* Directly held by Petrofac Limited
**Companies consolidated as subsidiaries on the basis of control.

| Name of company | Country of incorporation | Proportion of nominal value of issued shares controlled by the group | |
|---|---|---|---|
| | | 2010 | 2009 |
| **Trading subsidiaries** continued | | | |
| Sakhalin Technical Training Centre | Russia | 80 | 80 |
| Petrofac Norge AS | Norway | 100 | 100 |
| SPD Group Limited | British Virgin Islands | 51 | 51 |
| SPD UK Limited | Scotland | 51 | 51 |
| SPD LLC | United Arab Emirates | **25 | **25 |
| Petrofac Energy Developments Oceania Limited | Cayman Islands | – | 100 |
| PT. Petrofac IKPT International | Indonesia | 51 | 51 |
| Petrofac Kazakhstan Limited | England | 100 | 100 |
| Petrofac International (UAE) LLC | United Arab Emirates | 100 | 100 |
| Petrofac E&C Oman LLC | Oman | 100 | 100 |
| Petrofac International South Africa (Pty) Limited | South Africa | 100 | 100 |
| Eclipse Petroleum Technology Limited | England | 100 | 100 |
| Eclipse Petroleum Technology Inc | United States | 100 | 100 |
| Caltec Limited | England | 100 | 100 |
| i Perform Limited | Scotland | 100 | 100 |
| Petrofac FPF1 Limited | Jersey | 100 | 100 |
| Petrofac Platform Management Services Limited | Jersey | 100 | 100 |
| Petrokyrgyzstan Limited | Jersey | 100 | 100 |
| Scotvalve Services Limited | Scotland | 100 | – |
| Stephen Gillespie Consultants Limited | Scotland | 100 | – |
| CO2DeepStore Limited | Scotland | 100 | – |
| CO2DeepStore Holdings Limited | Jersey | 100 | – |
| CO2DeepStore (Aspen) Limited | England | 100 | – |
| TNEI Services Limited | England | 100 | – |
| Petrofac E&C Sdn Bhd | Malaysia | 100 | – |
| Petrofac FPSO Holding Limited | Jersey | 100 | – |
| The New Energy Industries Limited | England | 100 | – |
| Petrofac Information Services Private Limited | India | 100 | – |
| Petrofac Solutions & Facilities Support S.R.L | Romania | 100 | – |
| **Joint Ventures** | | | |
| Costain Petrofac Limited | England | 50 | 50 |
| Kyrgyz Petroleum Company | Kyrgyz Republic | 50 | 50 |
| MJVI Sendirian Berhad | Brunei | 50 | 50 |
| Spie Capag – Petrofac International Limited | Jersey | 50 | 50 |
| TTE Petrofac Limited | Jersey | 50 | 50 |
| Petrofac Emirates LLC | United Arab Emirates | **49 | **49 |
| **Dormant subsidiaries** | | | |
| Joint Venture International Limited | Scotland | 100 | 100 |
| Montrose Park Hotels Limited | Scotland | 100 | 100 |
| RGIT Ethos Health & Safety Limited | Scotland | 100 | 100 |
| Scota Limited | Scotland | 100 | 100 |
| Monsoon Shipmanagement Limited | Cyprus | 100 | 100 |
| Rubicon Response Limited | Scotland | 100 | 100 |

**Companies consolidated as subsidiaries on the basis of control.

# Company financial statements

# Independent auditors' report

## To the members of Petrofac Limited

We have audited the parent company financial statements of Petrofac Limited (the 'Company') for the year ended 31 December 2010 which comprise the company income statement, the company statement of comprehensive income, the company statement of financial position, the company cash flow statement, the company statement of changes in equity and the related notes 1 to 17. The financial reporting framework that has been applied in their preparation is applicable Jersey law and International Financial Reporting Standards (IFRSs).

This report is made solely to the Company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991 and our engagement letter dated 15 February 2011. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' responsibilities set out on page 96, the Directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

In addition the Company has also instructed us to:

- report to you our opinion on whether the section of the remuneration report that is described as audited has been properly prepared in accordance with the basis of preparation described therein
- review certain elements of the report to shareholders by the Board on Directors' remuneration, which for a premium listed UK incorporated company is specified for review by the Listing Rules of the Financial Services Authority

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

### Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2010 and of its profit for the year then ended
- have been properly prepared in accordance with International Financial Reporting Standards
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991

### Opinion on other matter

In our opinion the part of the remuneration report to be audited, which you have instructed us to review, has been properly prepared in accordance with the basis of preparation as described therein.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters:

- where the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:
  - proper accounting records have not been kept, or proper returns adequate for our audit have not been received from branches not visited by us
  - the financial statements are not in agreement with the accounting records and returns
  - we have not received all the information and explanations we require for our audit
- where the Company instructed us to review certain elements of the report to shareholders by the Board on director's remuneration

### Other matter

We have reported separately on the group financial statements of Petrofac Limited for the year ended 31 December 2010.

Justine Belton
for and on behalf of Ernst & Young LLP
London
4 March 2011

1 The maintenance and integrity of the Petrofac Limited website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

2 Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Company income statement

For the year ended 31 December 2010

| | Notes | 2010 US$'000 | 2009 US$'000 |
|---|---|---|---|
| **Revenue** | 3 | **342,997** | 161,994 |
| General and administration expenses | 4 | **(15,903)** | (11,440) |
| Other income | 5 | **177,890** | – |
| Other expenses | | **(1,822)** | (577) |
| **Profit before tax and finance income/(costs)** | | **503,162** | 149,977 |
| Finance costs | 6 | **(1,800)** | (5,349) |
| Finance income | 6 | **2,678** | 9,858 |
| **Profit before tax** | | **504,040** | 154,486 |
| Income tax expense | | **–** | – |
| **Profit for the year** | | **504,040** | 154,486 |

# Company statement of comprehensive income

For the year ended 31 December 2010

| | 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| **Profit for the period** | **504,040** | 154,486 |
| Net (loss)/gains on maturity of cash flow hedges recycled in the period | **–** | (537) |
| Net changes in fair value of derivatives and financial assets designated as cash flow hedges | **–** | 962 |
| Other comprehensive income (loss) | **–** | 425 |
| **Total comprehensive income for the period** | **504,040** | 154,911 |

The attached notes 1 to 17 form part of these Company financial statements.

# Company statement of financial position

At 31 December 2010

| | Notes | 2010 US$'000 | 2009 US$'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **33** | 27 |
| Investments in subsidiaries | 8 | **233,231** | 265,599 |
| Available-for-sale investment | 9 | **101,251** | – |
| | | **334,515** | 265,626 |
| **Current assets** | | | |
| Trade and other receivables | | **300** | 189 |
| Amounts due from subsidiaries | 10 | **42,508** | 379,939 |
| Warrants on available-for-sale investment | 9 | **11,969** | – |
| Cash and short-term deposits | 11 | **88,257** | 64,387 |
| | | **143,034** | 444,515 |
| **Total assets** | | **477,549** | 710,141 |
| **Equity and liabilities** | | | |
| **Equity attributable to Petrofac Limited shareholders** | | | |
| Share capital | 17 | **6,914** | 8,638 |
| Share premium | | **992** | 69,712 |
| Capital redemption reserve | | **10,881** | 10,881 |
| Treasury shares | 12 | **(65,317)** | (56,285) |
| Share based payments reserve | | **45,154** | 43,790 |
| Retained earnings | | **18,214** | 119,103 |
| **Total equity** | | **16,838** | 195,839 |
| **Non-current liabilities** | | | |
| Interest-bearing loans and borrowings | 14 | **26,887** | 39,008 |
| Long-term employee benefit provisions | | **251** | 176 |
| | | **27,138** | 39,184 |
| **Current liabilities** | | | |
| Trade and other payables | | **18,804** | 811 |
| Amounts due to subsidiaries | 10 | **403,126** | 448,048 |
| Interest-bearing loans and borrowings | 14 | **11,643** | 26,259 |
| | | **433,573** | 475,118 |
| **Total liabilities** | | **460,711** | 514,302 |
| **Total equity and liabilities** | | **477,549** | 710,141 |

The financial statements on pages 146 to 158 were approved by the Board of Directors on 4 March 2011 and signed on its behalf by Keith Roberts – Chief Financial Officer.

The attached notes 1 to 17 form part of these Company financial statements.

# Company cash flow statement

For the year ended 31 December 2010

| | Notes | 2010 US$'000 | 2009 US$'000 |
|---|---|---|---|
| **Operating activities** | | | |
| **Profit before tax** | | **504,040** | 154,486 |
| Gain on EnQuest demerger | 5 | **(177,890)** | – |
| | | **326,150** | 154,486 |
| Adjustments for: | | | |
| Depreciation | 4 | **20** | 27 |
| Share-based payments | 13 | **671** | 912 |
| Difference between other long-term employment benefits paid and amounts recognised in the income statement | | **75** | 32 |
| Net finance income | 6 | **(878)** | (4,509) |
| Other non-cash items, net | | **1,526** | 1,843 |
| **Operating profit before working capital changes** | | **327,564** | 152,791 |
| Trade and other receivables | | **(111)** | 60 |
| Amounts due from subsidiaries | | **(15,199)** | (109,097) |
| Trade and other payables | | **6,024** | 319 |
| Amounts due to subsidiaries | | **(44,922)** | 160,583 |
| Current financial liabilities | | **–** | (433) |
| | | **273,356** | 204,223 |
| Other non-current items, net | | **–** | 307 |
| **Cash generated from operations** | | **273,356** | 204,530 |
| Interest paid | | **(1,800)** | (1,443) |
| **Net cash flows generated from operating activities** | | **271,556** | 203,087 |
| **Investing activities** | | | |
| Purchase of available-for-sale financial assets | 9 | **(101,251)** | – |
| Purchase of property, plant and equipment | | **(26)** | (13) |
| Repayment of investment by subsidiaries | | **44,886** | (50,000) |
| Interest received | | **5,270** | 187 |
| **Net cash flows used in investing activities** | | **(51,121)** | (49,826) |
| **Financing activities** | | | |
| Repayment of interest-bearing loans and borrowings | | **(26,773)** | (5,121) |
| Treasury shares purchased | 12 | **(36,486)** | – |
| Equity dividends paid | | **(132,244)** | (98,995) |
| **Net cash flows used in financing activities** | | **(195,503)** | (104,116) |
| **Net increase in cash and cash equivalents** | | **24,932** | 49,145 |
| Net foreign exchange difference on cash and cash equivalents | | **(1,062)** | 726 |
| Cash and cash equivalents at 1 January | | **64,387** | 14,516 |
| **Cash and cash equivalents at 31 December** | 11 | **88,257** | 64,387 |

The attached notes 1 to 17 form part of these Company financial statements.

# Company statement of changes in equity

## For the year ended 31 December 2010

| | Issued share capital US$'000 (note 16) | Share premium US$'000 | Capital redemption reserve US$'000 | *Treasury shares US$'000 (note 12) | Share-based payments reserve US$'000 (note 13) | Net unrealised gains (losses) on derivatives US$'000 | Retained earnings US$'000 | Total equity US$'000 |
|---|---|---|---|---|---|---|---|---|
| Balance at 1 January 2009 | 8,636 | 68,203 | 10,881 | (69,333) | 32,202 | (425) | 61,577 | 111,741 |
| Net profit for the year | – | – | – | – | – | – | 154,486 | 154,486 |
| Other comprehensive income/(expense) | – | – | – | – | – | 425 | – | 425 |
| Total comprehensive income/(expense) | – | – | – | – | – | 425 | 154,486 | 154,911 |
| Shares issued as payment of deferred consideration | 2 | 1,509 | – | – | – | – | – | 1,511 |
| Share-based payments charge (note 13) | – | – | – | – | 912 | – | – | 912 |
| Shares vested during the year | – | – | – | 13,048 | (12,617) | – | (431) | – |
| Transfer to reserve for share-based payments (note 13) | – | – | – | – | 23,293 | – | – | 23,293 |
| Dividends (note 7) | – | – | – | – | – | – | (96,529) | (96,529) |
| Balance at 1 January 2010 | 8,638 | 69,712 | 10,881 | (56,285) | 43,790 | – | 119,103 | 195,839 |
| Net profit for the year | – | – | – | – | – | – | 504,040 | 504,040 |
| Other comprehensive income | – | – | – | – | – | – | – | – |
| Total comprehensive income | – | – | – | – | – | – | 504,040 | 504,040 |
| Share-based payments charge (note 13) | – | – | – | – | 671 | – | – | 671 |
| Shares vested during the year | – | – | – | 27,454 | (26,170) | – | (1,284) | – |
| Treasury shares purchased (note 12) | – | – | – | (36,486) | – | – | – | (36,486) |
| Transfer to reserve for share-based payments (note 13) | – | – | – | – | 26,863 | – | – | 26,863 |
| Shares issued as payment of deferred consideration | 4 | 2,452 | – | – | – | – | – | 2,456 |
| EnQuest demerger share split and redemption (note 5) | (1,728) | – | – | – | – | – | 1,728 | – |
| Distribution on EnQuest demerger (note 5) | – | (71,172) | – | – | – | – | (473,325) | (544,497) |
| Dividends (note 7) | – | – | – | – | – | – | (132,048) | (132,048) |
| **Balance at 31 December 2010** | **6,914** | **992** | **10,881** | **(65,317)** | **45,154** | **–** | **18,214** | **16,838** |

*Shares held by Petrofac Employee Benefit Trust

The attached notes 1 to 17 form part of these Company financial statements.

# Notes to the Company financial statements

For the year ended 31 December 2010

## 1 Corporate information

The financial statements of Petrofac Limited ('the Company') referred to as the Company financial statements for the year ended 31 December 2010 were authorised for issue in accordance with a resolution of the Directors on 4 March 2011.

Petrofac Limited is a limited liability company registered in Jersey under the Companies (Jersey) Law 1991 and is the holding company for the international group of Petrofac subsidiaries (together 'the group'). The group's principal activity is the provision of facilities solutions to the oil & gas production and processing industry.

## 2 Summary of significant accounting policies

### Basis of preparation

The separate financial statements have been prepared on a historical cost basis, except for derivative financial instruments and available-for-sale financial assets that have been measured at fair value. The functional and presentation currency of the separate financial statements is United States Dollars and all values in the separate financial statements are rounded to the nearest thousand (US$'000) except where otherwise stated. Certain comparative information has been reclassified to conform to current period presentation.

### Statement of compliance

The separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and applicable requirements of Jersey law.

### Investments in subsidiaries

Investments in subsidiaries are stated at cost less any provision for impairment.

### Long-term loan receivables from subsidiaries

Long-term loan receivables from subsidiaries are initially stated at fair value. After initial recognition, they are subsequently measured at amortised cost using the effective interest rate method.

### Due from/due to subsidiaries

Due from/due to subsidiaries are both interest bearing and non-interest bearing short-term funding to and from subsidiaries. These are recognised at the fair value of consideration received/paid, less any provision for impairment.

### Cash and cash equivalents

Cash and cash equivalents consist of cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purpose of the cash flow statement, cash and cash equivalents consists of cash and cash equivalents as defined above, net of any outstanding bank overdrafts.

### Interest-bearing loans and borrowings

All interest-bearing loans and borrowings are initially recognised at the fair value of the consideration received net of issue costs directly attributable to the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

### Employee Benefit Trust

The Petrofac Employee Benefit Trust (PEBT) is treated as an extension of the activities of the Company and accordingly the Company financial statements include all transactions and balances of the PEBT except for transaction and balances between the company and PEBT.

### Share-based payment transactions

Employees (including directors) of the group receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

### Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. In valuing equity-settled transactions, no account is taken of any service or performance conditions, other than conditions linked to the price of the shares of Petrofac Limited ('market conditions'), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the relevant employees become fully entitled to the award (the 'vesting period'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the group's best estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance conditions are satisfied. Equity awards cancelled are treated as vesting immediately on the date of cancellation, and any expense not recognised for the award at that date is recognised in the income statement.

The Company operates a number of share award schemes on behalf of the employees of the group which are described in detail in note 24 of the consolidated financial statements of the group.

The reserve for share-based payments is used to record the value of equity settled share-based payments awarded to employees and transfers out of this reserve are made upon vesting of the original share awards. The share-based payments charges pertaining to fellow group companies are recharged to them and shown as investment. Subsequently they are transferred to due from subsidiaries and settled in cash.

### Available-for-sale financial assets

Investments classified as available-for-sale are initially stated at fair value, including acquisition charges associated with the investment.

After initial recognition, available-for-sale financial assets are measured at their fair value using quoted market rates or in the absence of market data other fair value calculation methodologies. Gains and losses are recognised as a separate component of equity until the investment is sold or impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

### Derivative financial instruments and hedging

The Company uses derivative financial instruments such as forward currency contracts, interest rate collars and swaps and oil price collars and forward contracts to hedge its risks associated with foreign currency, interest rate and oil price fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives that do not qualify for hedge accounting are taken to the income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate cap, swap and oil price collar contracts is determined by reference to market values for similar instruments.

## 3 Revenues

Revenues comprise of dividends from subsidiaries which are recognised when the right to receive payment is established.

| | 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| Dividend income from subsidiaries | **342,997** | 161,994 |

## 4 General and administration expenses

| | 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| Staff costs | **10,750** | 7,595 |
| Depreciation | **20** | 27 |
| Other operating expenses | **5,133** | 3,818 |
| | **15,903** | 11,440 |

Included in other operating expenses above are auditors' remuneration of US$65,000 (2009: US$67,000) related to the fee for the audit of the parent company financial statements. It excludes fees in relation to the audit of the group financial statements, which are borne by Petrofac Services Limited.

## 5 Gain on EnQuest demerger

On 5 April 2010, the group's interests in the Don area oil assets were demerged via a transfer of three of its subsidiaries, Petrofac Energy Developments Limited (PEDL), Petrofac Energy Developments Oceania Limited (PEDOL) and PEDL Limited (PEDLL) to EnQuest PLC for a deemed consideration for accounting purposes of US$553,300,000 which was settled by the issue of EnQuest PLC shares directly to Petrofac Limited shareholders*. The gain on the demerger transaction has been computed as follows:

| | US$'000 |
|---|---|
| Fair value of consideration | **553,300** |
| Less: | |
| Net book value of PEDL investment | **(373,774)** |
| Transaction costs | **(1,636)** |
| Gain on demerger | **177,890** |

*In order to effect the demerger of the PEDL sub group to EnQuest, the existing issued ordinary share capital of Petrofac Limited was subdivided and converted into new ordinary Petrofac shares with a nominal value of US$0.02 each and Petrofac B shares of US$0.005 each and subsequent to this share split the B shares were purchased and cancelled in exchange for an allotment and issue of EnQuest ordinary shares directly to holders of Petrofac B shares.

As a result of this capital re-organisation and purchase of Petrofac B shares US$1,728,000 of Petrofac issued ordinary share capital was extinguished and transferred to retained earnings and the non-cash distribution to Petrofac shareholders for accounting purposes of US$553,300,000 was made via the utilisation of the existing share premium account of balance of US$71,172,000 with the remaining amount of US$482,128,000 being transferred out of retained earnings. In addition US$8,803,000 of proceeds generated by the Petrofac Employee Benefit Trust selling its holding of EnQuest shares arising from the demerger have been credited to retained earnings leaving a net impact on retained earnings of US$473,325,000.

## 6 Finance costs/(income)

| | 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| **Interest payable:** | | |
| Long-term borrowings | **(1,205)** | (1,443) |
| On amounts due to subsidiaries | **(595)** | (3,906) |
| Total finance cost | **(1,800)** | (5,349) |
| **Interest receivable:** | | |
| Bank interest receivable | **44** | 55 |
| On amounts due from subsidiaries | **2,634** | 9,803 |
| Total finance income | **2,678** | 9,858 |

# Notes to the Company financial statements continued
For the year ended 31 December 2010

## 7 Dividends paid

| | 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| **Declared and paid during the year** | | |
| Equity dividends on ordinary shares: | | |
| Final dividend for 2008: 17.90 cents per share | – | 60,332 |
| Interim dividend 2009: 10.70 cents per share | – | 36,197 |
| Final dividend for 2009: 25.10 cents per share | 85,291 | – |
| Interim dividend 2010: 13.80 cents per share | 46,757 | – |
| | 132,048 | 96,529 |

| | 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| **Proposed for approval at AGM (not recognised as a liability as at 31 December)** | | |
| Equity dividends on ordinary shares | | |
| Final dividend for 2010: 30.00 cents per share (2009: 25.10 cents per share) | 103,715 | 86,729 |

## 8 Investments in subsidiaries

| | 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| At 1 January | 265,599 | 214,088 |
| Investment in Petrofac UK Holdings Limited | 22,331 | 1,511 |
| Investment in Petrofac Energy Developments Limited (PEDL) | – | 50,000 |
| Investment repaid by PEDL | (50,000) | – |
| Capitalisation of amount due from PEDL | 373,774 | – |
| Derecognition of PEDL investment and amounts due on EnQuest demerger | (373,774) | – |
| Investment in Jermyn Insurance Company Limited | 3,001 | – |
| Receipt from Petrofac Facilities Management Limited | (7,700) | – |
| Invested bonus in Deferred Bonus Share Plan (DBSP) charged to subsidiaries | 12,518 | 10,753 |
| Receipt of invested bonus in DBSP from subsidiaries | (12,518) | (10,753) |
| Share based payment amounts receivable from subsidiaries | 14,113 | 12,351 |
| Transferred to due from subsidiaries | (14,113) | (12,351) |
| **As at 31 December** | 233,231 | 265,599 |

At 31 December 2010, the Company had investments in the following subsidiaries:

| | | Proportion of nominal value of issued shares controlled by the Company | |
|---|---|---|---|
| Name of company | Country of incorporation | 2010 | 2009 |
| **Trading subsidiaries** | | | |
| Petrofac Inc. | USA | 100 | 100 |
| Petrofac International Ltd | Jersey | 100 | 100 |
| Petrofac Energy Developments Limited | England | – | 100 |
| Petrofac Energy Developments International Limited | Jersey | 100 | 100 |
| Petrofac UK Holdings Limited | England | 100 | 100 |
| Petrofac Facilities Management International Limited | Jersey | 100 | 100 |
| Petrofac Services Limited | England | 100 | 100 |
| Petrofac Services Inc. | USA | 100 | 100 |
| Petrofac Training International Limited | Jersey | 100 | 100 |
| Petroleum Facilities E & C Limited | Jersey | 100 | 100 |
| Petrofac Energy Developments UK Limited | England | 100 | – |
| Jermyn Insurance Company Limited | Guernsey | 100 | – |

## 9 Available-for-sale investment

On 25 November 2010, the Company invested US$100,000,000 for 15% (12.6% on a fully diluted basis) of the share capital of Seven Energy International Limited (Seven Energy), a leading Nigerian gas development and production company incurring US$1,251,000 of transaction costs. The Company also has the option to subscribe for 148,571 of additional warrants in Seven Energy at a cost of a further US$52,000,000, subject to the performance of certain service provision conditions and milestones in relation to project execution. These warrants have been fair valued as derivative financial instruments under IAS 39, using Black Scholes Model, amounting to US$11,969,000 with a corresponding entry in trade and other payables representing deferred revenue relating to the performance conditions. This will be recognised as a gain once the warrants become exercisable.

### 10 Amounts due from/due to subsidiaries

Amounts due from/due to subsidiaries comprise both interest and non-interest bearing short-term loans provided to/received from subsidiaries listed in note 8.

### 11 Cash and short-term deposits

| | 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| Cash at bank and in hand | **19,687** | 4,857 |
| Short-term deposits | **68,570** | 59,530 |
| Total cash and bank balances (cash and cash equivalents) | **88,257** | 64,387 |

Short-term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the group, and earn interest at respective short-term deposit rates. The fair value of cash and bank balances is US$88,257,000 (2009: US$64,387,000).

### 12 Treasury shares

For the purpose of making awards under its employee share schemes, the Company acquires its own shares which are held by the Petrofac Employee Benefit Trust. All these shares have been classified in the statement of financial position as treasury shares within equity.

The movements in total treasury shares are shown below:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Number | US$'000 | Number | US$'000 |
| At 1 January | **7,210,965** | **56,285** | 9,540,306 | 69,333 |
| Acquired during the year | **2,122,960** | **36,486** | – | – |
| Vested during the year | **(2,576,586)** | **(27,454)** | (2,329,341) | (13,048) |
| **At 31 December** | **6,757,339** | **65,317** | 7,210,965 | 56,285 |

During the year 5,467,852 of the above shares held by Lehman Brothers in a client custody account were released to the Company as part of the Lehman Brothers administration process.

### 13 Share-based payments charge/reserve

**Share based payment charge**

Share-based payment plan information is disclosed in note 24 of the consolidated financial statements of the group. The following table shows the movements in the number of shares held under the three group employee schemes:

| | Deferred Bonus Share Plan Number | Performance Share Plan Number | Restricted Share Plan Number |
|---|---|---|---|
| Outstanding at 1 January 2009 | 41,809 | 137,047 | – |
| Granted during the period | 47,766 | 85,033 | – |
| Vested during the period | (21,000) | (37,383) | – |
| Forfeited during the period | (1,605) | – | – |
| Outstanding at 1 January 2010 | 66,970 | 184,697 | – |
| Granted during the period | 24,912 | 75,210 | 5,585 |
| Vested during the period | (29,239) | (48,505) | – |
| Forfeited during the period | (518) | – | – |
| **Outstanding but not exercisable at 31 December 2010** | **62,125** | **211,402** | **5,585** |

| | Deferred Bonus Share Plan Number | Performance Share Plan Number | Restricted Share Plan Number |
|---|---|---|---|
| Made up of following awards: | | | |
| 2008 | 6,791 | 51,159 | – |
| 2009 | 30,422 | 85,033 | – |
| 2010 | 24,912 | 75,210 | 5,585 |
| | **62,125** | **211,402** | **5,585** |

During the year, a share-based payment scheme charge of US$671,000 (2009: US$912,000) was recognised by the Company in respect of its own employees time spent on shareholder related services.

**Share-based payment reserve**

The transfer during the year into share-based payment reserve disclosed in the statement of changes in equity of US$26,863,000 (2009: US$23,293,000) is the charge for share-based payments awards by the company to its own employees as well as employees of subsidiaries, including bonus amounts converted into shares.

# Notes to the Company financial statements continued
For the year ended 31 December 2010

## 14 Interest-bearing loans and borrowings
The Company had the following interest-bearing loans and borrowings outstanding:

| | | 31 December 2010 Actual interest rate % | 31 December 2009 Actual interest rate % | Effective interest rate % | Maturity | **2010 US$'000** | 2009 US$'000 |
|---|---|---|---|---|---|---|---|
| **Current** | | | | | | | |
| Revolving credit facility | (iii) | – | US LIBOR + 1.50% | US LIBOR + 1.50% | | **–** | 20,000 |
| Current portion of term loan | (i) | US LIBOR + 0.875% | US LIBOR + 0.875% | 3.26% (2009: 3.71%) | | **7,357** | 5,296 |
| Current portion of term loan | (ii) | US/UK LIBOR + 0.875% | US/UK LIBOR + 0.875% | 2.01% to 3.91% (2009: 2.65% to 3.44%) | | **4,286** | 963 |
| | | | | | | **11,643** | 26,259 |
| **Non-current** | | | | | | | |
| Term loan | (ii) | US/UK LIBOR + 0.875% | US/UK LIBOR + 0.875% | 2.01% to 3.91% (2009: 2.65% to 3.44%) | 2010–2013 | **13,809** | 18,291 |
| Term loan | (i) | US LIBOR + 0.875% | US LIBOR + 0.875% | 3.26% (2009: 3.71%) | 2010–2013 | **15,700** | 23,581 |
| | | | | | | **29,509** | 41,872 |
| **Less:** | | | | | | | |
| Debt acquisition costs net of accumulated amortisation and effective interest rate adjustments | | | | | | **(2,622)** | (2,864) |
| | | | | | | **26,887** | 39,008 |

Details of the Company's interest-bearing loans and borrowings are as follows:

**(i) Term loan**
This term loan at 31 December 2010 comprised drawings of US$23,057,000 (2009: US$28,877,000) repayable over a period of three years ending 30 September 2013.

**(ii) Term loan**
This term loan is to be repaid over a period of three years ending 30 September 2013.

**(iii) Revolving credit facility**
This facility was repaid on 31 December 2010.

## 15 Risk management and financial instruments

### Risk management objectives and policies

The Company's principal financial assets and liabilities, are amounts due from and due to subsidiaries, cash and short-term deposits and interest bearing loans and borrowings.

The Company's activities expose it to various financial risks particularly associated with interest rate risks on its external variable rate loans and borrowings which are addressed by using derivative instruments to hedge this exposure. The Company has a policy not to enter into speculative trading of financial derivatives.

The other main risks besides interest rate are foreign currency risk, credit risk and liquidity risk and the policies relating to these risks are discussed in detail below:

### Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the Company's interest-bearing financial liabilities and assets. The Company does not hedge its exposure on its interest bearing funding to/from subsidiaries.

### Interest rate sensitivity analysis

The impact on the Company's pre-tax profit and equity due to a reasonably possible change in interest rates is demonstrated in the table below. The analysis assumes that all other variables remain constant.

| | Pre-tax profit | | Equity | |
|---|---|---|---|---|
| | 100 basis point increase US$'000 | 100 basis point decrease US$'000 | 100 basis point increase US$'000 | 100 basis point decrease US$'000 |
| **31 December 2010** | **(401)** | **401** | **–** | **–** |
| 31 December 2009 | (823) | 823 | – | – |

The following table reflects the maturity profile of interest bearing financial liabilities and assets, excluding interest bearing subsidiary related financial assets and liabilities:

| **Year ended 31 December 2010** | Within 1 year US$'000 | 1-2 years US$'000 | 2-3 years US$'000 | 3-4 years US$'000 | 4-5 years US$'000 | More than 5 years US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | | |
| Floating rates | | | | | | | |
| Term loan (note 14) | 11,643 | 15,497 | 14,012 | – | – | – | 41,152 |
| Amount due to subsidiaries (interest bearing) | 403,126 | – | – | – | – | – | 403,126 |
| | **414,769** | **15,497** | **14,012** | **–** | **–** | **–** | **444,278** |
| **Financial assets** | | | | | | | |
| Floating rates | | | | | | | |
| Cash and short-term deposits (note 11) | 88,257 | – | – | – | – | – | 88,257 |
| Amount due from subsidiaries (interest bearing) | 42,508 | – | – | – | – | – | 42,508 |
| | **130,765** | **–** | **–** | **–** | **–** | **–** | **130,765** |

# Notes to the Company financial statements continued
For the year ended 31 December 2010

### 15 Risk management and financial instruments continued
**Year ended 31 December 2009**

| | Within 1 year US$'000 | 1-2 years US$'000 | 2-3 years US$'000 | 3-4 years US$'000 | 4-5 years US$'000 | More than 5 years US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | | |
| Floating rates | | | | | | | |
| Revolving credit facility (note 14) | 20,000 | – | – | – | – | – | 20,000 |
| Term loan (note 14) | 6,259 | 11,688 | 15,567 | 14,617 | – | – | 48,131 |
| Amount due to subsidiaries (interest bearing) | 448,048 | – | – | – | – | – | 448,048 |
| | 474,307 | 11,688 | 15,567 | 14,617 | – | – | 516,179 |
| **Financial assets** | | | | | | | |
| Floating rates | | | | | | | |
| Cash and short-term deposits (note 11) | 64,387 | – | – | – | – | – | 64,387 |
| Amount due from subsidiaries (interest bearing) | 358,693 | – | – | – | – | – | 358,693 |
| | 423,080 | – | – | – | – | – | 423,080 |

Financial liabilities in the above table are disclosed gross of debt acquisition costs and effective interest rate adjustments of US$2,622,000 (2009: US$2,864,000).

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year.

**Derivative instruments designated as cash flow hedges**
There were no outstanding interest rate derivatives designated as cash flow hedges at 31 December 2009 and 31 December 2010.

**Foreign currency risk**
Almost all of the financial assets and liabilities of the Company are denominated in US Dollars. The foreign currency exposure is limited to Sterling 3,134,000 equivalent US$4,892,000 (2009: Sterling 3,300,000 equivalent US$5,354,000) of its interest bearing loans and borrowings.

The following table summarises the impact on the Company's pre-tax profit and equity (due to change in the fair value of monetary assets, liabilities and derivative instruments) of a reasonably possible change in US Dollar exchange rates with respect to different currencies:

| | Pre-tax profit | | Equity | |
|---|---|---|---|---|
| | +10% US Dollar rate increase US$'000 | –5% US Dollar rate decrease US$'000 | +10% US Dollar rate increase US$'000 | –5% US Dollar rate decrease US$'000 |
| **31 December 2010** | **(1,482)** | **741** | **–** | **–** |
| 31 December 2009 | (3,821) | 1,911 | – | – |

**Credit risk**
The Company's principal financial assets are cash and short-term deposits and amounts due from subsidiaries.

The Company manages its credit risk in relation to cash and short-term deposits by only depositing cash with financial institutions that have high credit ratings provided by international credit rating agencies.

**Liquidity risk**
The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of term loans and revolving credit facilities to reduce its exposure to liquidity risk.

The maturity profiles of the Company's financial liabilities at 31 December 2010 are as follows:

**Year ended 31 December 2010**

| | 6 months or less US$'000 | 6-12 months US$'000 | 1-2 years US$'000 | 2-5 years US$'000 | More than 5 years US$'000 | Contractual undiscounted cash flows US$'000 | Carrying amount US$'000 |
|---|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | | |
| Interest-bearing loans and borrowings | 5,583 | 6,060 | 15,497 | 14,012 | – | 41,152 | 38,530 |
| Trade and other payables | 18,804 | – | – | – | – | 18,804 | 18,804 |
| Amounts due to subsidiaries | – | 403,126 | – | – | – | 403,126 | 403,126 |
| Interest payments | 250 | 234 | 391 | 134 | – | 1,009 | – |
| | **24,637** | **409,420** | **15,888** | **14,146** | **–** | **464,091** | **460,460** |

**Year ended 31 December 2009**

| | 6 months or less US$'000 | 6-12 months US$'000 | 1-2 years US$'000 | 2-5 years US$'000 | More than 5 years US$'000 | Contractual undiscounted cash flows US$'000 | Carrying amount US$'000 |
|---|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | | |
| Interest-bearing loans and borrowings | 2,648 | 23,611 | 11,688 | 30,184 | – | 68,131 | 65,267 |
| Trade and other payables | 811 | – | – | – | – | 811 | 811 |
| Amounts due to subsidiaries | – | 448,048 | – | – | – | 448,048 | 448,048 |
| Interest payments | 563 | 798 | 1,273 | 1,472 | – | 4,106 | – |
| | 4,022 | 472,457 | 12,961 | 31,656 | – | 521,096 | 514,126 |

The Company uses various funded facilities provided by banks and its own financial assets to fund the above mentioned financial liabilities.

**Capital management**

The Company's policy is to maintain a healthy capital base using a combination of external and internal financing to support its activities as the holding company for the group.

The Company's gearing ratio is as follows:

| | **2010 US$'000** | 2009 US$'000 |
|---|---|---|
| Cash and short-term deposits | **88,257** | 64,387 |
| Interest-bearing loans and borrowings (A) | **(38,530)** | (65,267) |
| Net/cash (debt) (B) | **49,727** | (880) |
| **Total Equity (C)** | **16,838** | 195,839 |
| **Gross gearing ratio (A/C)*** | **228.8%** | 33.3% |
| **Net gearing ratio (B/C)** | **Net cash position** | 0.4% |

*Significant increase in gross gearing ratio in 2010 is as a result of EnQuest demerger.

# Notes to the Company financial statements continued
For the year ended 31 December 2010

## 15 Risk management and financial instruments continued

### Fair values of financial assets and liabilities

The fair value of the Company's financial instruments and their carrying amounts included within the Company's statement of financial position are set out below:

| | Carrying amount | | Fair value | |
|---|---|---|---|---|
| | **2010 US$'000** | 2009 US$'000 | **2010 US$'000** | 2009 US$'000 |
| **Financial assets** | | | | |
| Cash and short-term deposits | **88,257** | 64,387 | **88,257** | 64,387 |
| **Financial liabilities** | | | | |
| Interest-bearing loans and borrowings | **38,530** | 65,267 | **38,530** | 65,267 |

The fair values of long-term interest-bearing loans and borrowings and long-term receivable from a subsidiary are equivalent to amortised costs determined as the present value of discounted future cash flows using the effective interest rate. The Company considers that the carrying amounts of trade and other receivables, amounts due from/due to subsidiaries, trade and other payables and other current financial liabilities approximate their fair values and are therefore excluded from the above table.

### Fair value hierarchy

The following financial instruments are measured at fair value using the hierarchy below for determination and disclosure of their respective fair values:

Tier 1: Unadjusted quoted prices in active markets for identical financial assets or liabilities
Tier 2: Other valuation techniques where the inputs are based on all observation data (directly or indirectly)
Tier 3: Other valuation techniques where the inputs are based on unobservable market data

### Assets and liabilities measured at fair value

| | Tier 2 US$'000 | **2010 US$'000** |
|---|---|---|
| **Financial assets** | | |
| Seven Energy warrants | 11,969 | **11,969** |

| | Tier 2 US$'000 | **2010 US$'000** |
|---|---|---|
| **Financial assets** | | |
| Interest-bearing loans and borrowings | 38,530 | **38,530** |

| | Tier 2 US$'000 | 2009 US$'000 |
|---|---|---|
| **Financial assets** | | |
| Interest-bearing loans and borrowings | 65,267 | 65,267 |

## 16 Related party transactions

The Company's related parties consist of its subsidiaries and the transactions and amounts due to/due from them are either of funding or investing nature (note 8). The Company is re-charged a portion of the key management personnel cost by one of its subsidiaries. The amount recharged during the year was US$2,854,000 (2009: US$2,182,000). For further details of the full amount of key management personnel costs refer to the Directors' remuneration report on pages 93 to 95.

## 17 Share capital

The movements in share capital are disclosed in note 22 to the consolidated financial statements of the group.

# Oil & gas reserves (unaudited)

At 31 December 2010

| | Europe | Africa | | South East Asia | Total | | |
|---|---|---|---|---|---|---|---|
| | Oil & NGLs mmbbl | Oil & NGLs mmbbl | Gas bcf | Oil & NGLs mmbbl | Oil & NGLs mmbbl | Gas bcf | Oil equivalent mmboe |
| **Proven reserves** | | | | | | | |
| At 1 January 2010 | | | | | | | |
| Developed | 3.4 | 1.4 | 19.3 | 3.6 | 8.4 | 19.3 | 11.8 |
| Undeveloped | 9.7 | – | 0.5 | – | 9.7 | 0.5 | 9.7 |
| Proven | **13.1** | **1.4** | **19.8** | **3.6** | **18.1** | **19.8** | **21.5** |
| Changes during the year: | | | | | | | |
| Revisions | – | (0.1) | 8.2 | (0.4) | (0.5) | 8.2 | 0.9 |
| Additions | – | – | 1.6 | 8.9 | 8.9 | 1.6 | 9.1 |
| Divestments | (12.6) | – | – | – | (12.6) | – | (12.6) |
| Production | (0.5) | (0.5) | (4.6) | (1.1) | (2.1) | (4.6) | (2.8) |
| At 31 December 2010 | | | | | | | |
| Developed | – | 0.8 | 23.4 | 2.1 | 2.9 | 23.4 | 7.0 |
| Undeveloped | – | – | 1.6 | 8.9 | 8.9 | 1.6 | 9.1 |
| Proven | **–** | **0.8** | **25.0** | **11.0** | **11.8** | **25.0** | **16.1** |
| **Probable reserves** | | | | | | | |
| At 1 January 2010 | 6.4 | – | 6.2 | 0.5 | 6.9 | 6.2 | 8.1 |
| Changes during the year: | | | | | | | |
| Revisions | – | – | (3.3) | 0.4 | 0.4 | (3.3) | (0.1) |
| Additions | – | – | 1.4 | 0.4 | 0.4 | 1.4 | 0.5 |
| Divestments | (6.4) | – | – | – | (6.4) | – | (6.4) |
| Production | – | – | – | – | – | – | – |
| At 31 December 2010 | **–** | **–** | **4.3** | **1.3** | **1.3** | **4.3** | **2.1** |
| **Total proven & probable reserves** | | | | | | | |
| At 1 January 2010 | 19.5 | 1.4 | 26.0 | 4.1 | 25.0 | 26.0 | 29.6 |
| Changes during the year: | | | | | | | |
| Revisions | – | (0.1) | 4.9 | – | (0.1) | 4.9 | 0.8 |
| Additions | – | – | 3.0 | 9.3 | 9.3 | 3.0 | 9.6 |
| Divestments | (19.0) | – | – | – | (19.0) | – | (19.0) |
| Production | (0.5) | (0.5) | (4.6) | (1.1) | (2.1) | (4.6) | (2.8) |
| At 31 December 2010 | **–** | **0.8** | **29.3** | **12.3** | **13.1** | **29.3** | **18.2** |

**Notes**

- these estimates of reserves were prepared by the group's engineers and audited by a competent, independent third party based on the guidelines of the Petroleum Resources Management System (sponsored by the Society of Petroleum Engineers, the World Petroleum Council, the American Association of Petroleum Geologists and the Society of Petroleum Evaluation Engineers)
- the reserves presented are the net entitlement volumes attributable to the Company, under the terms of relevant production sharing contracts and assuming future oil prices equivalent to US$75 per barrel (Brent)
- for the purpose of calculating oil equivalent total reserves, volumes of natural gas have been converted to oil equivalent volumes at the rate of 5,800 standard cubic feet of gas per barrel of oil
- the Europe geographical segment contains reserves attributable to the Don Fields, which were divested from the Company in April 2010

# Shareholder information

## At 31 December 2010

Petrofac shares are traded on the London Stock Exchange using code 'PFC.L'.

**Registrar**
Capita Registrars (Jersey) Limited
12 Castle Street
St Helier
Jersey JE2 3RT

**UK Transfer Agent**
Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

**Company Secretary and registered office**
Ogier Corporate Services (Jersey) Limited
Ogier House
The Esplanade
St Helier
Jersey JE4 9WG

**Legal Advisers to the Company**
Freshfields Bruckhaus Deringer LLP
65 Fleet Street
London EC4Y 1HS

**Joint Brokers**
Goldman Sachs
Peterborough Court
133 Fleet Street
London EC4A 2BB

JP Morgan Cazenove
10 Aldermanbury
London EC2V 7RF

**Auditors**
Ernst & Young LLP
1 More London Place
London SE1 2AF

**Corporate and Financial PR**
Tulchan Communications Group
85 Fleet Street
London EC4Y 1AE

**Financial Calendar**

| | |
|---|---|
| 13 May 2011 | Annual General Meeting |
| 20 May 2011 | Final dividend payment |
| 22 August 2011 | Interim results announcement |
| October 2011 | Interim dividend payment |

Dates correct at time of print, but subject to change

The group's investor relations website can be found through www.petrofac.com

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